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IFRS financial statements 2005

Key considerations for preparers

An IAS Plus guide

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Foreword

For many entities, 2005 will be the first time that they apply International Financial Reporting Standards (IFRSs). Even for those entities already applying IFRSs, 2005 will be the first accounting period for which they will need to comply with the requirements of the 13 Standards revised in the International Accounting Standards Board's (IASB's) Improvements Project. In addition, the IASB has made a number of amendments to IAS 32 and 39, and has released IFRSs 1 to 7 (1 to 5 being effective for 2005 year ends). The cumulative effect of these revisions and new Standards is that entities are being required to rewrite substantially their financial statements in 2005.

The objective of this guide is to provide assistance with the process of drafting those financial statements. It is not a disclosure checklist, nor a comprehensive illustration of a set of financial statements. Those tools are already available on our IAS Plus website and from Deloitte offices globally. Rather, this publication draws on our experience of the presentation and disclosure requirements of the new and revised Standards and, in particular, of the understanding that we have gained by closely monitoring the drafting process. It deals with issues that we have faced, and overcome – in the hope that we can help readers to avoid those pitfalls.

This is a year in which preparers will need to commit time and resources, well in advance of the final run-up to publication, to considering how best to apply the new requirements in drafting their financial statements. There is no one "correct" way to meet the requirements of IFRSs – preparers need to consider the options available and to determine which best present the results and financial position in the entity's particular circumstances. The aim should be to arrive at a presentation that communicates information to the users of the financial statements in a manner that is clear, unambiguous and informative – and that meets the technical requirements of the Standards.

I would encourage readers to take the challenge further than simply addressing the new and revised requirements effective for 2005. I would strongly encourage preparers to stand back and review their financial statements as a whole – even those areas unaffected by the 2005 changes – and spend some time considering whether the layout and presentation can be improved. Very often, when a new disclosure is introduced, preparers will tend to "fit it in" to the existing financial statements with a view to minimum disruption. After a few years, the cumulative impact of these ad hoc changes can be to undermine the logical structure of the financial statements. 2005 is an opportunity to take the financial statements apart again and improve them as a whole.

Please continue to keep up to date with new developments via our IAS Plus website. Nearly 3 million people have visited www.iasplus.com to date. Our goal is to be the most comprehensive source of news about international financial reporting on the internet. Please check in regularly.

Ken Wild
Global leader, International Financial Reporting Standards
Deloitte Touche Tohmatsu, December 2005

Abbreviations

The following abbreviations have been used throughout this publication.

EPS	Earnings per share
IAS(s)	International Accounting Standard(s)
IASB	International Accounting Standards Board
IFRIC	International Financial Reporting Interpretations Committee of the IASB, and title of interpretations issued by that committee
IFRS(s)	International Financial Reporting Standard(s)
SIC	Standing Interpretations Committee of the IASB's predecessor body, the International Accounting Standards Committee, and title of interpretations issued by that committee
SORIE	Statement of Recognised Income and Expense

The paragraphs of this publication that represent the authors' interpretations are highlighted by green shading.

Illustrative disclosures and extracts from Deloitte's IFRS Model Financial Statements for 2005 are highlighted by stone shading.

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1. Summary of changes affecting disclosure and presentation in 2005 financial statements

At a glance

- The revisions to IAS 1 and IAS 8 merit particular consideration, specifically as regards the disclosure of the impact of new Standards (including those not yet effective), disclosure of critical accounting judgements and key sources of estimation uncertainty, and the presentation of changes in accounting policies and the correction of errors (see section 1.2 below).
- Revisions to IAS 24 extend the scope of that Standard and the definition of related party, so that entities will need to revisit their disclosures to ensure that all relevant transactions and balances have been appropriately disclosed (see section 6.16).
- IFRS 2 has considerably expanded the disclosure requirements for entities issuing share options to employees and entering into other share-based payment arrangements for goods or services (see section 6.14).
- Entities will need to consider their approach to the presentation and disclosure of financial instruments. A number of revisions have been made to IAS 32 and 39, which impact matters of detail. In addition, IFRS 7 has been released, which is not yet effective, but for which early adoption is encouraged. It may be worthwhile considering early adoption (see section 6.12).
- For entities with discontinued operations, IFRS 5 will require a fundamental redesign of the income statement. Not only that, but the Standard has quite a pervasive effect on the financial statements as a whole – in particular on the presentation of income statement disclosures required by other Standards and on the presentation of the cash flow statement (see section 1.3 below).

1.1 Standards and Interpretations effective for the first time in 2005

All of the IASB's Standards and Interpretations in issue at 31 October 2005 are listed in the appendix to this publication.

The following new and revised Standards and Interpretations are effective for the first time for financial periods beginning on or after 1 January 2005:

- 13 Standards revised in the IASB's Improvements Project;
- revisions to IAS 32 and IAS 39;
- IFRIC 2; and
- IFRSs 1 to 5.

The IASB has issued two later Standards (IFRSs 6 and 7) and three Interpretations (IFRICs 4, 5 and 6),and has made further revisions to IAS 32 and 39, and also to IAS 19, that are not effective for 2005 year ends but for which early application is encouraged.

The presentation and disclosure requirements of all of these Standards and Interpretations are dealt with in Deloitte's presentation and disclosure checklist. This publication does not attempt to address all of these requirements – but rather focuses on those changes that are likely to be the most challenging in terms of the presentation of financial statements. In sections 2 to 6 below we discuss the areas requiring consideration, generally in the order in which they might be presented in financial statements. There are, however, two specific matters that have quite a pervasive effect and to which we would like to draw your attention before delving into the detail.

1.2 Impact of revisions to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

IAS 1 and IAS 8 have been substantially revised as a result of the IASB's Improvements Project, and a number of the specific changes affecting presentation and disclosure have a significant effect on the overall presentation of the financial statements.

Matters arising from IAS 1 to which preparers will need to pay particular attention include:

- changes in the detailed rules for the classification of assets and liabilities as current and non-current, which may be critical in circumstances where the reporting entity is refinancing its obligations or having difficulty in meeting its debt convenants (see section 3 below); and
- the introduction of a new requirement to disclose critical accounting judgements made and key sources of estimation uncertainty (see section 6.5 below). Although these disclosures have always been implicitly required by virtue of the general requirement to disclose all information relevant to an understanding of the financial statements, this new requirement puts preparers "on the spot" and requires them to publish an explicit and clear explanation of these items.

Noteworthy revisions to IAS 8 have made the disclosure requirements regarding changes in accounting policies and the adoption of new Standards more onerous – so that the impact of such changes now has to be disclosed on a line-by-line basis (see section 6.2). In addition, the introduction of a new requirement to disclose the effect of Standards and Intepretations issued but not yet effective means that preparers will need to be aware of developments up to the date when financial statements are authorised for issue.

The revisions to IAS 8 have also affected the presentation of the correction of errors, and the presentation of changes in accounting policies. Essentially, the concept of a "fundamental" error has been abandoned, and entities are now required to present the correction of all material errors by restatement of prior period amounts, unless this is impracticable (see section 4.3). All changes in accounting policies are now required to be presented by restatement of prior period amounts, unless this is impracticable (see section 4.4). IAS 8 no longer includes the option of including the impact of the adjustment in the profit and loss for the current period.

1.3 Impact of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

IFRS 5 deals with two key points:

- the presentation of non-current assets held for sale, and associated liabilities, as separate captions on the face of the balance sheet (see section 3.2); and
- the presentation of discontinued operations (requirements have been substantially revised when compared to those previously contained in IAS 35 *Discontinuing Operations*).

Under the revised requirements, the impact of discontinued operations will generally be presented as a single-line item on the face of the income statement – after the "profit for the year from continuing operations". Therefore, where an entity has discontinued operations, the amounts relating to those operations that would previously have been included in revenue, expenses, operating profit, tax etc. are excluded from those headings – thus conveying the impact of the "shrinkage" of the group. Consequently, the impression of the scale of the entity's activities given by the income statement may be fundamentally changed.

From a purely practical perspective, this fundamental redraft of the income statement leads to a myriad of other issues. The problem is that IAS 1, and other Standards that dictate disclosures in relation to the income statement, have not been redrafted in line with IFRS 5. Therefore, for example, IAS 1 requires that all revenue be presented on the face of the income statement – but this will not be possible where a single-line presentation of discontinued operations is adopted under IFRS 5. Similarly, various Standards require the presentation of totals for expenses (e.g. IAS 23 requires the disclosure of total borrowing costs), but the segregation of the income statement under IFRS 5 means that this requirement will not be met on the face of the income statement, and that note disclosures will need to be redesigned. The change may also impact the layout of the cash flow statement, where an entity has discontinued operations (see section 5.1).

This is not rocket science – but it can result in the need for a fundamental redesign of the lay-out of the financial statements. The time required to complete this re-design should not be under-estimated. Because a number of Standards are now inconsistent, this can be a frustrating process as the preparer tries to meet all of the requirements, while still aiming for a clear presentation. We have highlighted a number of points that will require special consideration (see section 2 (income statement), section 6.6 (segment reporting) and section 6.7 (income and expense analysis) in particular). We hope that this guidance will help preparers to avoid some of the hidden pitfalls.

2. Income statement

At a glance

- Some changes to IAS 1 regarding the amounts to be presented on the face of the income statement.
- Some guidance from the International Financial Reporting Interpretations Committee (IFRIC) regarding other matters of presentation on the face of the income statement.
- Consistent with changes in other components of the financial statements, the minority share of the results for the period is now presented as an allocation to equity.
- For entities with discontinued operations, a fundamental redraft of the income statement is required to segregate the effect of discontinued operations.

2.1 Items to be presented on the face of the income statement

2.1.1 Specific headings required by IAS 1

IAS 1.81 sets out the headings required to be presented on the face of the income statement. Two principal changes have been made to this list as a result of the IASB's Improvements Project:

- there is no longer a requirement to present "the results of operating activities" as a separate heading on the face of the income statement; and
- extraordinary items have been deleted from the list.

IAS 1 (as revised) makes no specific reference to operating profit or loss – although entities are clearly permitted to continue to present this sub-total. In fact, IAS 1 would implicitly require its presentation "when such presentation is relevant to an understanding of an entity's financial performance". [IAS 1.83] The IFRIC has spent some time considering what should be included and excluded from operating result in the event that it is presented – see section 2.1.2 below.

As regards extraordinary items, these have been an endangered species for some years – but the revisions to IAS 1 mark the formal pronouncement of their extinction. "An entity shall not present any items of income and expense as extraordinary items, either on the face of the income statement or in the notes." [IAS 1.85] It is interesting to note that there is no definition of 'extraordinary item' in the revised Standard – so future generations may be somewhat confused as to what it is that they are not permitted to present!

2.1.2 IFRIC discussions

Over the past 12 months, the IFRIC has spent some time considering the question of presentation on the face of the income statement.

It has rejected the idea of defining "operating" result in advance of the conclusion of the IASB's ongoing project on Performance Reporting. However, in the Basis of Conclusions to IAS 1, the IASB (the Board) has provided the following guidance:

> *The Board recognises that an entity may elect to disclose the results of operating activities, or a similar line item, even though this term is not defined. In such cases, the Board notes that the entity should ensure the amount disclosed is representative of activities that would normally be considered to be 'operating'. In the Board's view, it would be misleading and would impair the comparability of financial statements if items of an operating nature were excluded from the results of operating activities, even if that had been industry practice. For example, it would be inappropriate to exclude items clearly related to operations (such as inventory write-downs, and restructuring and relocation expenses) because they occur irregularly or infrequently or are unusual in amount. Similarly, it would be inappropriate to exclude items on the grounds that they do not involve cash flows, such as depreciation and amortisation expenses. [IAS 1.BC13]*

The IFRIC has also considered the question of providing disclosure of expenses using a mix of the functional and natural classifications of expenses and has determined that this is not permitted. IAS 1 specifies that an entity should present an analysis of expenses using a classification based on either the nature of expenses (staff costs, depreciation etc.) or their function within the entity (cost of sales, administration costs, distribution costs etc.), whichever provides information that is reliable and more relevant. The IFRIC considered examples where entities had chosen to classify expenses on a functional basis but excluded certain 'unusual' expenses from the functional classifications to which they related and presented them separately by nature (e.g. inventory write-downs, employee termination benefits, and impairments of property, plant and equipment or intangible assets). This practice has been rejected as misleading – because it can result in the misstatement of the functional classifications. For example, if termination benefits relating to manufacturing employees are separately presented on the face of the income statement, then the functional heading in which those costs should have been included (i.e. cost of sales) is misstated (see IFRIC Update October 2004).

At the same meeting, the IFRIC considered whether it is acceptable to present finance revenue and finance costs 'net' on the face of the income statement. The IFRIC members noted that paragraph 81 of IAS 1 requires the face of the income statement to include line items that present, among other things, amounts for revenue and finance costs. It was agreed that, taken together with paragraph 32 of IAS 1 (general prohibition on offsetting items in the income statement), paragraph 81 precludes presenting 'net finance costs' (or a similar term) on the face of the income statement without showing the finance costs and finance revenue making up the net amount. However, it was considered that this did not preclude presentation of finance revenue followed immediately by finance costs and a subtotal (e.g. 'net finance costs') on the face of the income statement (see IFRIC Update Ocotober 2004).

The following illustrates the presentation of a sub-total for 'net finance costs':

Extract from the income statement

	Year ended 31/12/05	Year ended 31/12/04
	CU'000	CU'000
Operating profit	126,342	49,774
Investment revenues	3,501	717
Finance costs	(36,187)	(32,165)
Net finance costs	(32,686)	(31,448)
Share of profit of associates	12,763	983
Other gains and losses	(563)	(44)
Profit before tax	105,856	19,265

The conclusion in the previous paragraph raises another interesting question on the presentation of revenue, i.e. given IAS 1's requirement to present revenue on the face of the income statement, where the entity has more than one category of revenue (e.g. both trading and finance revenue), is it necessary to present a single line item that includes the combined revenue from all sources, or is it acceptable to present different categories of revenue as individual line items, without presenting a total for revenue? Before the October 2004 IFRIC conclusion on net finance costs (see above), there had been some uncertainty over whether paragraph 81 of IAS 1 should be interpreted as requiring a single total for each item listed or whether several "line items" could be presented to represent a single requirement in paragraph 81 (e.g. revenue). The IFRIC conclusion on net finance costs implicitly confirms that it is acceptable to show separate items for revenue from customers and for finance revenue without having to total the two items on the face of the income statement. Therefore, if using the example formats in IAS 1, it may be that the 'revenue' line consists only of revenue from the sale of goods and services.

The underlying message – be alert. The rules for presentation are not always clear – and accepted practice will evolve in the coming reporting periods. In the meantime, regulators are keeping a watchful eye for any layout perceived to be misleading. One of the most important principles to bear in mind is that of consistency – both as regards the treatment of similar items in the same period, and the presentation adopted in successive periods.

2.1.3 Presentation of minority interest

Following the IASB's Improvements Project, minority interests have been clearly defined as a subset of equity. Therefore, for the purpose of income statement presentation, the result for the period is effectively split between the proportion attributable to equity holders of the parent and the proportion attributable to minority interest. This is quite a key point of principle in reporting the result for the period, and is illustrated at the bottom of the consolidated income statement set out on the next page.

2.2 Entities with discontinued operations

2.2.1 Requirements of the Standard

The IFRS 5 requirements regarding the presentation of discontinued operations on the face of the income statement are set out below.

An entity shall disclose:

a) a single amount on the face of the income statement comprising the total of:

(i) the post-tax profit or loss of discontinued operations; and

(ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation.

b) an analysis of the single amount in (a) into:

(i) the revenue, expenses and pre-tax profit or loss of discontinued operations;

(ii) the related income tax expense as required by paragraph 81(h) of IAS 12;

(iii) the gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation; and

(iv) the related income tax expense as required by paragraph 81(h) of IAS 12.

The analysis may be presented in the notes or on the face of the income statement. If it is presented on the face of the income statement it shall be presented in a section identified as relating to discontinued operations, i.e., separately from continuing operations. The analysis is not required for disposal groups that are newly acquired subsidiaries that meet the criteria to be classified as held for sale on acquisition ….. [IFRS 5.33]

The effect of these requirements is that where an entity has a discontinued operation, the income statement is divided into two sections – continuing operations and discontinued operations. The components of the results of the continuing operations (revenue, expenses, tax etc.) are always presented on the face of the income statement. For discontinued operations, the entity has the choice of presenting the components on the face of the income statement or in the notes.

Presentation using the "single-line" approach for discontinued operations is illustrated below.

Consolidated income statement for the year ended 31 December 2005

	Notes	Year ended 31/12/05	Year ended 31/12/04
		CU'000	CU'000
Continuing operations			
Revenue	5	1,064,660	728,250
Cost of sales		(697,027)	(552,343)
Gross profit		367,633	175,907
Other operating income		9,892	6,745
Distribution costs		(96,298)	(45,609)
Administrative expenses		(131,485)	(69,545)
Other operating expenses		(23,400)	(17,724)
Operating profit		126,342	49,774
Share of profit of associates		12,763	983
Investment revenues	7	3,501	717
Other gains and losses		(563)	(44)
Finance costs	8	(36,187)	(32,165)
Profit before tax		105,856	19,265
Income tax expense	9	(16,166)	(3,810)
Profit for the year from continuing operations		89,690	15,455
Discontinued operation			
Profit for the year from discontinued operation	10	10,676	4,171
Profit for the year	12	100,366	19,626
Attributable to:			
Equity holders of the parent		99,757	19,529
Minority interest		609	97
		100,366	19,626

Preparers need to be alert to the following consequences of a single-line presentation:

- the impact of the discontinued operation is excluded from the other headings on the face of the income statement – e.g. the amount presented as "revenue" is not the total revenue for the group, but the revenue for the continuing operations. Prior period amounts will need to be restated on same basis;
- this has implications for the entity's compliance with the requirements of IAS 1. For example, IAS 1 requires the presentation of an analysis of expenses for the entire group, not just for continuing operations. IAS 1 has not been amended to reflect the revised format of the income statement under IFRS 5 – so entities will need to ensure that, where the requirements of IAS 1 are not met on the face of the income statement, the required information is presented in the notes of the financial statements (see section 6.7 for further discussion); and
- where the entity elects not to present the detailed components of the discontinued operation on the face of the income statement, the detail must be presented in the notes to the financial statements. The following illustrates a possible note presentation.

Note 10. Discontinued operation

On 14 May 2005, the Group entered into a sale agreement to dispose of Subsix Limited, which carried out all of the Group's toy manufacturing activities. The disposal was effected in order to generate cash flow for the expansion of the Group's other businesses. The disposal was completed on 30 November 2005, on which date control of Subsix Limited passed to the acquirer.

The profit for the year from the discontinued operation is analysed as follows:

	Year ended 31/12/05	Year ended 31/12/04
	CU'000	CU'000
Profit of toy manufacturing operation for the year	2,183	4,171
Gain on disposal of toy manufacturing operation	8,493	–
	10,676	4,171

The results of the toy manufacturing operation for the period from 1 January 2005 to 30 November 2005 are as follows:

	Period ended 30/11/05	Year ended 31/12/04
	CU'000	CU'000
Revenue	159,438	141,203
Cost of sales	(97,431)	(79,923)
Distribution costs	(19,447)	(16,458)
Administrative expenses	(38,067)	(39,432)
Finance costs	(493)	(830)
Profit before tax	4,000	4,560
Income tax expense	(1,817)	(389)
Profit for the year	2,183	4,171

Where the entity elects to present the detailed components of the results of discontinued operations on the face of the income statement, preparers will need to use their ingenuity to avoid cluttering the face of the income statement. To present the discontinued operation in a vertical layout, following on from the continuing operations, will generally result in a two-page income statement. Alternatively, a columnar approach could be considered. The most appropriate layout will depend on the entity's particular circumstances.

2.2.2. Transitional provisions and restatement of comparatives

In practice, the transitional provisions of IFRS 5 require more consideration than one might have imagined. Under IFRS 5.43, the Standard is to be applied *prospectively* to operations that meet the criteria to be classified as discontinued after 1 January 2005 (the effective date of the Standard).

The entity may opt for retrospective application from a date earlier than 1 January 2005 if sufficient information is available (see IFRS 5.43). If this approach is adopted, then prior period amounts will be restated to reflect the segregation of all operations discontinued up to the 2005 balance sheet date. This would ensure consistency in the reporting of the income statement.

Preparers considering retrospective application in respect of their discontinued operations should be aware that it will only be possible to select this option if they also have the necessary information available for the retrospective application of IFRS 5's requirements regarding non-current assets held for sale.

Assuming that the entity opts for prospective application, then the requirements of IFRS 5 (as set out in 2.2.1 above) apply to operations that meet the criteria to be classified as discontinued in the 2005 accounting period There are a number of issues regarding prospective application on which the Standard is unclear:

- IFRS 5.34 requires that, where an operation is discontinued in the current period, the income statements for all prior periods should be restated so as to segregate the impact of those operations as discontinued. It is not clear whether this restatement is necessary in 2005 where the entity is adopting IFRS 5 on a prospective basis;
- for operations that met the criteria for a discontinued operation in 2004, but that continue to impact the income statement in 2005, it is unclear whether prospective application means that they do not fall within the scope of the Standard; and
- based on the above, what happens if an operation was discontinued in 2004 but has no impact on the 2005 financial statements?

The answers to these questions are not clear. We believe that the most helpful approach is to assume that the comparatives should be restated for all operations that qualify as discontinued in either 2004 or 2005. This will ensure that the income statements for both periods will be comparable.

3. Balance sheet

At a glance

- New and revised Standards in 2005 are unlikely to have a very significant impact on the appearance of the face of the balance sheet.
- There have been a number of detailed changes regarding the analysis of assets and liabilities between current and non-current. These changes may be important – particularly where liquidity ratios are key, for example, for debt covenants.
- Consistent with changes in other components of the financial statements, minority interests are now presented within equity.
- IFRS 5 requires the separate identification of non-current assets held for sale and associated liabilities.

3.1 Analysis of assets and liabilities between current and non-current

3.1.1 Presentation on the face of the balance sheet

From 2005, entities are required to analyse their assets and liabilities between current and non-current on the face of the balance sheet, except where a presentation based on liquidity provides information that is reliable and is more relevant. Where this exception applies, assets and liabilities should be presented in the balance sheet broadly in order of liquidity. [IAS 1.51]

The Standard cites financial institutions as an example of entities for which a presentation of assets and liabilities in increasing or decreasing order of liquidity provides information that is reliable and is more relevant than a current/non-current presentation, because such entities do not supply goods or services within a clearly identifiable operating cycle.

In the past, entities were effectively in a position to choose whether or not to present the current/non-current distinction on the face of the balance sheet. Where an entity supplies goods or services within a clearly identifiable operating cycle, and has previously elected not to present the current/non-current distinction on the face of the balance sheet, the revised Standard requires the balance sheet presentation (including comparative amounts) to be amended.

3.1.2 Amended definition of current liability

The definition of a current liability has been expanded. Under the previous version of the Standard, a liability was classified as current when it:

- was expected to be settled in the normal course of the entity's operating cycle; or
- was due to be settled within twelve months of the balance sheet date.

The revisions for 2005 financial statements add the following to liabilities that are classified as current: [IAS 1.60]

- liabilities held primarily for the purpose of being traded; and
- liabilities where the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

The first of these will impact a small number of entities that acquire liabilities for trading purposes. The second addition may, however, have a more far-reaching impact. For example, where an entity borrows from a related party with no specific repayment date, a non-current classification could previously have been justified on the basis that there was no expectation of payment within the normal operating cycle, and there was no specified settlement date. Under the revised Standard, unless the entity has an unconditional right (rather than an expectation) to defer settlement until at least twelve months after the balance sheet date, the liability is classified as current.

The amended definition should also be applied to the comparative amounts presented in the balance sheet. Therefore, items that were not previously classified as current, but which fall within the expanded definition, should also be reclassified in amounts disclosed for prior years.

3.1.3 No adjustment for refinancing/rectification of breaches after the balance sheet date

Following the revisions to IAS 1, financial liabilities that are due within twelve months of the balance sheet date must be classified as current, even where they have been refinanced after the balance sheet date. [IAS 1.63] Under the previous version of the Standard, the liability could be classified as current provided that the refinancing agreement was finalised before the financial statements had been authorised for issue.

Similarly, if, due to a breach of covenants before the balance sheet date, a long-term loan has become repayable on demand, the loan must be classified as current, unless the lender has agreed *before the balance sheet date* not to demand repayment as a consequence of the breach. The loan is classified as non-current if the lender has agreed, by the balance sheet date, to provide a period of grace ending at least twelve months after the balance sheet date, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment. [IAS 1.65 & 66] The previous version of the Standard allowed classification as non-current when (a) the lender had agreed before authorisation of the financial statements not to demand payment, and (b) it was not probable that further breaches would occur within twelve months of the balance sheet date.

These changes may be crucial for entities under financial stress and involved in renegotiation of their financing arrangements. Firstly, they will result in increased pressure to conclude negotiations before the balance sheet date. Secondly, if the negotiations are not completed by that date, the liabilities may be classified as current, which will have a consequential effect on liquidity ratios and, potentially, result in a breach of loan covenants.

Amounts presented for comparative periods should also be reclassified using the revised rules.

3.2 Assets and liabilities reclassified under IFRS 5

IFRS 5 specifies the following for balance sheet presentation purposes: [IFRS 5.38]

- non-current assets classified as held for sale and the assets of a disposal group classified as held for sale should be presented separately from other assets in the balance sheet;
- the liabilities of a disposal group classified as held for sale should be presented separately from other liabilities in the balance sheet;
- the assets and liabilities shall not be offset and presented as a single amount; and
- the major classes of assets and liabilities classified as held for sale should be separately disclosed either on the face of the balance sheet or in the notes (except if the disposal group is a newly acquired subsidiary that meets the criteria to be classified as held for sale on acquisition).

Therefore, "assets classified as held for sale" and "liabilities directly associated with assets classified as held for sale" may be two new categories on the face of the balance sheet. They should be included in the totals for current assets and current liabilities respectively. The following balance sheet extract illustrates one way of achieving this.

Extract from consolidated balance sheet

	31/12/05	31/12/04
	CU'000	CU'000
Current assets		
Inventories	117,693	108,698
Finance lease receivables	54,713	49,674
Trade and other receivables	127,916	123,656
Investments held for trading	37,243	29,730
Derivative financial instruments	2,436	4,817
Cash and cash equivalents	11,609	1,175
Assets classified as held for sale	1,922	–
	353,532	317,750
Current liabilities		
Trade and other payables	141,429	84,412
Current tax liabilities	8,229	1,986
Obligations under finance leases	1,470	1,483
Bank overdrafts and loans	144,307	128,686
Provisions	6,432	2,065
Derivative financial instruments	273	1,879
Liabilities directly associated with assets classified as held for sale	247	–
	302,387	220,511

The presentation illustrated in Example 13 included in the implementation guidance accompanying IFRS 5 strikes sub-totals for current assets and current liabilities excluding these amounts, and then totals for current assets and current liabilities. In our opinion, the sub-totals are unnecessary.

On an ongoing basis, where an asset meets the definition as held for sale and is classified as such in the current period, amounts for comparative periods are not reclassified.

The transitional provisions of IFRS 5 allow that it be applied prospectively to non-current assets (or disposal groups) that meet the criteria to be classified as held for sale after 1 Januaury 2005. [IFRS 5.43] Therefore, it will not generally be necessary to restate prior year balance sheets. However, in some circumstances, the entity may wish to opt for retrospective application from an earlier date, (see discussion at 2.2.2 above) which is permitted by the Standard provided that sufficient information is available. [IFRS 5.43]

4. Statement of changes in equity

At a glance

- There have been some changes to IAS 1's requirements regarding the presentation of changes in equity – nothing major, but they will require some attention to ensure compliance with the detailed requirements.
- Movements in equity attributable to minority shareholders are now required to be separately identified.
- For entities adopting the December 2004 amendments to IAS 19 in advance of their effective date, an option has been introduced to recognise in equity actuarial gains and losses arising in post-employment defined benefit schemes.
- The elimination of alternative accounting treatments previously allowed under IAS 8 regarding the correction of errors and the accounting for changes in accounting policies means that the prior period impact of these items will always be dealt with in equity, unless this is impracticable.
- Entities with amounts recognised in equity as a result of share-based payment arrangements will need to consider how best to present those amounts.
- Movements in the equity of associates are now specifically required to be separately disclosed.

4.1 Presentation of changes in equity

The general requirement to present a statement of changes in equity has not changed. Essentially, the entity has a choice between presenting a statement of recognised income and expense (excluding transactions with equity holders) as a primary statement, with a comprehensive reconciliation of all movements in equity presented in the notes, and presenting a comprehensive statement of all changes in equity as a primary statement (see IAS 1.96 and IAS 1.97). Deloitte's IFRS Model Financial Statements for 2005 illustrate both of these options.

Detailed changes for 2005 include:

- whichever format is selected, the entity is required to present a separate line item "total income and expense for the period", calculated as the total of profit or loss for the period and other items of income and expense recognised directly in equity;
- the statement must show separately the total amounts of income and expense attributable to equity holders of the parent and to minority interest;
- an explicit requirement to present separately in the statement of changes in equity distributions to equity holders; and
- formal clarification that transactions costs arising on transactions with equity holders should be excluded from amounts recognised as income and expense, consistent with the treatment of the underlying transactions.

The December 2004 amendments to IAS 19 (see section 4.2 below) have introduced another minor change in the requirements – where the entity opts to present a primary statement showing only items of income and expense (with transactions with equity holders relegated to the notes), the primary statement should be titled "Statement of Recognised Income and Expense" (SORIE).

Although there have been no significant changes in the requirements outlined above, entities may wish to reconsider the option that they have previously selected for the presentation of changes in equity. They may wish to change the presentation adopted in order to more effectively communicate the impact of changes in equity. Factors to be considered include:

- as discussed in section 4.2 below, where an entity elects to recognise actuarial gains and losses outside of profit or loss, the amendments to IAS 19 require that it present those changes in a SORIE. Therefore, for such entities, the alternative of presenting the comprehensive statement of all changes in equity as a primary statement is not available; and
- as financial statements become more comprehensive, there are more and more problems in practice with the presentation of a comprehensive statement of changes in equity as a primary statement. New Standards (e.g. IFRS 2) are requiring additional items to be presented in equity. Additional sub-totals (e.g. the total for all income and expense discussed above) and analyses (e.g. separate identification of equity movements attributable to minorities) expand the statement further and test the limitations of word processors in all but quite simple scenarios. Preparers may wish to opt for the SORIE presentation in order to avoid a cluttered and incomprehensible primary statement.

4.2 Recognition of gains and losses outside of profit or loss

In December 2004, the IASB issued amendments to IAS 19 which deal with the following:

- the introduction of an additional recognition option for actuarial gains and losses arising in post-employment defined benefit schemes;
- clarification that a contractual agreement between a multi-employer plan and participating employers that determines how a surplus is to be distributed or a deficit funded will give rise to an asset or liability;
- accounting requirements for group defined benefit plans in the separate or individual financial statements of entities within a group; and
- a number of additional disclosure requirements (see section 6.15).

Under the additional recognition option, entities that elect to recognise actuarial gains and losses in the period in which they occur are permitted to recognise those gains and losses in the statement of changes in equity. Entities that continue to follow IAS 19's 'corridor approach' or any other recognition pattern that does not result in immediate recognition of actuarial gains and losses must continue to recognise the portion of actuarial gains and losses recognised in any period in the income statement.

Where a policy of immediate recognition in equity is selected, that policy must be applied equally to all of the entity's defined benefit plans and to all of its actuarial gains and losses. The statement of changes in equity in which the gains or losses are recognised must be titled "Statement of Recognised Income and Expense" and it must only include items of income and expense that, as permitted by specific Standards, are recognised in equity. Therefore, where an entity adopts this recognition option, it is not permitted to also select the option of presenting a comprehensive statement of changes in equity as a primary statement.

The amendments to IAS 19 are effective from 1 January 2006, but earlier application is encouraged. Where the amendments are adopted for an earlier accounting period, that fact should be disclosed in the financial statements. In the absence of specific transitional provisions, the change in policy should be applied retrospectively.

Entities may therefore wish to consider applying the new recognition option in their December 2005 year ends – but it is not a decision that should be taken lightly. The impact of the change is that actuarial gains and losses never pass through the income statement – which might be perceived by some preparers as advantageous. The counter to this is that, under this new option, all actuarial gains and losses are recognised immediately – there is no corridor within which movements need not be recognised, and there is no smoothing of the impact over the average remaining working lives of the employees participating in the plan. This immediate recognition may have a significant impact on the entity's balance sheet – which preparers need to anticipate and accept.

It is interesting to note that, in its introduction to the amendments to IAS 19, the IASB stated that it has reservations about aspects of IAS 19, including concerns about deferred recognition of actuarial gains and losses. The Board has indicated that it intends to undertake a major project on accounting for post-employment benefit plans – and, given the stated concern about deferred recognition, it appears that they intend for all entities to be required to recognise gains and losses as they occur.

4.3 Corrections of errors

4.3.1 Revisions to IAS 8

In the past, restatements of previous financial statements (other than those relating to changes in accounting policies) were relatively uncommon under IFRSs. Such restatements were only permitted where a "fundamental" error had occurred. A fundamental error was defined as an error discovered in the current period of such significance that the financial statements of one or more prior periods could no longer be considered to have been reliable at their date of issue. The precise interpretation of this definition was a hotly debated topic – but there was general agreement that "fundamental" was a higher threshold than "material". To fall within the scope, it was generally required that the error be of quite pervasive effect. Such corrections were consequently quite rare and, when they did occur, they attracted close scrutiny from users of financial statements and regulators.

The revisions to IAS 8 have eliminated the concept of a fundamental error. From 2005, all material prior period error corrections are to be treated in the same manner, i.e. by: [IAS 8.42]

- restating the comparative amounts for the prior period(s) presented in which the error occurred; or
- if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest period presented.

Note that the alternative treatment permitted for fundamental errors under the previous version of IAS 8 (i.e. that the cumulative effect of the error could be dealt with in profit or loss in the current period) is no longer available from 2005.

4.3.2 Definition of a prior period error

Prior period errors are defined as

> *… omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:*
>
> *a) was available when financial statements for those periods were authorised for issue; and*
>
> *b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.*
>
> *Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud. [IAS 8.5]*

Although the concept of "fundamental" has fallen away – preparers still need to distinguish between corrections of errors and changes in accounting estimates. Accounting estimates by their nature are approximations that may need revision as additional information becomes known. For example, the gain or loss recognised on the outcome of a contingency is not the correction of an error.

4.3.3 Meaning of impracticable

IAS 8 does not require retrospective restatement for prior period errors where it is impracticable to determine the period-specific effects or the cumulative effect of the error. For the first time, IAS 8 provides detailed guidance on the meaning of "impracticable" in this context.

> *Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error if:*
>
> *a) the effects of the retrospective application or retrospective restatement are not determinable;*
>
> *b) the retrospective application or retrospective restatement requires assumptions about what management's intent would have been in that period; or*
>
> *c) the retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:*
>
> *(i) provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognised, measured or disclosed; and*
>
> *(ii) would have been available when the financial statements for that prior period were authorised for issue*
>
> *from other information.* [IAS 8.5]

Further guidance is provided in paragraphs 50 to 53 of IAS 8.

Preparers reading IAS 8.5 will note that these are quite explicit requirements. It will not be acceptable to avoid retrospective restatement for errors or changes in accounting policies on the basis that the required information is not readily available. Given the expanded disclosure requirements relating to the correction of errors and, in particular, the justification where it has been determined that restatement is impracticable (see section 4.3.4), preparers will need to ensure that every effort is made to determine the effect on prior periods or that they are in a position to provide a robust explanation as to why this has not been possible.

Sub-paragraphs (b) and (c) of IAS 8.5 (see above) may have the effect of prohibiting retrospective application, particularly where that treatment would require assumptions to be made about what management intent would have been in a prior period.

4.3.4 Disclosure

IAS 1 deals with the disclosure of such corrections in the statement of changes in equity. For each component of equity, the effects of corrections of errors should be disclosed separately. These adjustments should be disclosed for each prior period and the beginning of the period. [IAS 1.96(d) &100]

IAS 8 sets out the following expanded disclosure requirements, which will normally be presented in the notes to the financial statements.

> *… an entity shall disclose the following:*
>
> *a) the nature of the prior period error;*
>
> *b) for each prior period presented, to the extent practicable, the amount of the correction:*
>
> *(i) for each financial statement line item affected; and*
>
> *(ii if IAS 33 applies to the entity, for basic and diluted earnings per share;*
>
> *c) the amount of the correction at the beginning of the earliest prior period presented; and*
>
> *d) if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.*
>
> *Financial statements of subsequent periods need not repeat these disclosures. [IAS 8.49]*

4.4 Presentation of changes in accounting policies

The requirements of IAS 8 as regards the presentation of changes in accounting policies (other than those dealt with under specific transitional provisions in a new Standard or Interpretation) have been amended as a result of the Improvements Project. Previously, entities had a choice as regards the general principle for the presentation of such changes. The benchmark treatment was that such changes should generally be applied retrospectively with the resulting adjustment reported as an adjustment to the opening balance of retained earnings (or other relevant category of equity). The allowed alternative was that the change in accounting policy should be applied retrospectively – but that the resulting adjustment should be included in the determination of net profit or loss for the period.

The revised Standard effectively mandates the previous benchmark treatment – so that the impact on prior periods of all relevant changes in accounting policies will be reflected as equity movements from 2005.

The guidance on impracticability referred to in section 4.3.3 above applies equally to restatements arising from changes in accounting policies. Therefore, preparers are required to restate retrospectively except in very limited circumstances and, where the ‘impracticability’ exception has been availed of, they must be prepared to disclose an appropriate justification.

IAS 1 deals with the disclosure of such adjustments in the statement of changes in equity. For each component of equity, the effects of changes in accounting policies should be disclosed separately. These adjustments should be disclosed for each prior period and the beginning of the period. [IAS 1.96(d) &100]

The revisions to IAS 8 have also expanded the disclosure requirements regarding changes in accounting policy – see section 6.2 for a discussion of these changes.

4.5 Presentation of amounts recognised in equity for share-based payments

IFRS 2 requires that certain amounts be recognised in equity in respect of share-based payments, but the Standard is not specific as to how those equity movements should be classified. There are a range of presentations available – the most common of which are:

- the creation of a separate reserve; or
- taking the credit entry to retained earnings.

The creation of a separate reserve is favoured by those who view the entry as representing the proceeds for the issue of equity instruments and who wish to segregate those proceeds. The reserve is built up over time as a representation of shares to be issued in the future – depending on the legal jurisdiction, it may be transferred to share capital or share premium when the underlying shares are issued. Supporters of this view generally see the retained earnings as the accumulated profits of the entity, and consider it illogical to charge an expense through profit or loss only to effectively reinstate it by a credit to retained earnings.

Taking the credit to retained earnings is justified on the basis that there is little point in building up a separate reserve for which there is no obvious future event that would result in its elimination. Retained earnings is not seen as the cumulative total of undistributed profit or loss (a view that was confirmed by the IASB in paragraph 48W in the Basis of Conclusions to IAS 19 (as amended in December 2004)).

Either of the treatments discussed above seems acceptable under IFRSs. We expect that practice will tend to vary between jurisdictions – where legal requirements as regards distributable profits and other factors will dictate conventions for the presentation of equity components.

4.6 Movements in the equity of associates

IAS 28 *Investments in Associates* now requires that the investor's share of changes recognised directly in the associate's equity should be recognised directly in equity by the investor and should be separately disclosed in the statement of changes in equity. [IAS 28.39]

Most entities will have followed the requirements of IAS 28.39 in the past in that, where an item was recognised directly in equity by an associate, it was also recognised in equity in the consolidated financial statements. However, these items were not always separately identified – as is now required. Whether or not each separate movement in the equity of associates needs to be separately disclosed will be a question of materiality in the context of the consolidated financial statements – if the movements are not individually material, then a single line item (share of movements in the equity of associates) will generally be acceptable.

Note that, under IAS 28.27, if an associate uses accounting policies other than those of the investor for like transactions and events in similar circumstances, the associate's financial statements should be restated in line with investor's accounting policies for the purposes of equity accounting. Therefore, the reference in IAS 28.39 to items recognised directly in equity by an associate refers to items recognised directly in equity using the investor's accounting policies.

This absolute requirement for uniform accounting policies is new under IAS 28 (as revised). Entities that have previously incorporated the financial statements of associates prepared using accounting policies that were inconsistent with those of the group as a whole will need to amend this practice. The change should be applied retrospectively and, where material, prior period adjustments may be required in the investor's financial statements.

5. Cash flow statement

At a glance

IAS 7 *Cash Flow Statements* was not included within the scope of the Improvements Project, and there have been no significant changes in the requirements regarding the preparation of cash flow statements.

However, entities will need to reconsider the structure of their cash flow statements where they have discontinued operations.

5.1 Cash flows arising from discontinued operations

5.1.1 Separate disclosure of cash flows arising from discontinued operations

IAS 7 contains no specific rules as regards the presentation of cash flows from discontinued operations. IFRS 5 continues the disclosure requirements previously included in IAS 35 *Discontinuing Operations*, i.e. that there should be separate disclosure of the amounts of net cash flows attributable to the operating, investing and financing activities of the discontinued operation. [IFRS 5.33(c)]

IFRS 5 allows that these disclosures may be presented either in the notes or on the face of the cash flow statement. Our experience is that most entities present the disclosure as an additional narrative in the note dealing with discontinued operations, rather than on the face of the cash flow statement. This avoids undue clutter on the face of the cash flow statement. We suggest wording such as the following.

During the year, Subsix Limited contributed CU4.8 million (2004: CU4.25 million) to the Group's net operating cash flows, paid CU1.37 million (2004: CU2.89 million) in respect of investing activities and paid CU0.9 million (2004: CU3.71 million) in respect of financing activities.

5.1.2 Presentation of the operating cash flows section of the cash flow statement when the entity has discontinued operations

Where the entity is using the indirect method of presenting cash flows, profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows. [IAS 7.18(b)]

Given that the cash flows from discontinued operations must be incorporated into the appropriate sections of the cash flow statement (no Standard allows an exemption in this regard), then the question arises as to which "profit or loss" should be used as the starting point for this presentation. The illustrative examples in IAS 7 start with the "profit before taxation". But, in an income statement presented under IFRS 5, the amount disclosed for "profit before tax" relates only to continuing operations. We believe that there are a number of ways in which the requirements can be met.

The first approach is to start with the "profit for the year" as disclosed in the income statement under IAS 1.81(f). This includes both continuing and discontinued operations. The amount can then be adjusted for the items presented in the income statement between operating profit and profit for the period, as well as the other items required under IAS 7.18(b) (see above). The advantage of this approach is that it results in a very clear link between the amounts presented in the income statement, and the amounts presented in the cash flow statement. The disadvantage is that it can result in a long list of adjustments being presented on the face of the cash flow statement. The following illustration is taken from Deloitte's IFRS Model Financial Statements for 2005.

	Notes	Year ended 31/12/05	Year ended 31/12/04
		CU'000	CU'000
Operating activities			
Profit for the year		100,366	19,626
Adjustments for:			
Share of profit of associates		(12,763)	(983)
Investment revenues		(3,501)	(717)
Other gains and losses		563	44
Finance costs	8	36,680	32,995
Income tax expense	9	17,983	4,199
Gain on disposal of discontinued operation	10	(8,493)	–
Depreciation of property, plant and equipment		29,517	19,042
Impairment loss on fixtures and equipment		4,130	–
Amortisation of goodwill		–	247
Amortisation of other intangible assets		2,614	846
Impairment of goodwill		463	–
Negative goodwill released to income		–	(2,210)
Share-based payment expense		5,872	4,718
(Increase)/decrease in fair value of investment property		(601)	49
Amortisation of deferred initial direct costs on leases of investment property		10	10
Gain on disposal of property, plant and equipment		(4,184)	(500)
Increase/(decrease) in provisions		6,464	(2,320)
Operating cash flows before movements in working capital		175,120	75,046
Increase in inventories		(18,101)	(28,065)
Decrease/(increase) in receivables		2,319	(31,993)
Increase in payables		26,237	22,968
Cash generated from operations		185,575	37,956
Income taxes paid		(5,553)	(2,129)
Interest paid		(42,209)	(32,995)
Net cash from operating activities		137,813	2,832

One solution to the presentation of this extended list on the face of the cash flow statement would be to present the adjustments between profit for the period and the cash generated from operations in the notes to the financial statements. IAS 7 is not explicit as to where these adjustments should be presented – and we believe that presentation in the notes is acceptable. However, we would generally recommend presentation on the face of the cash flow statement. The illustrative example in Appendix A to IAS 7 shows them on the face of the cash flow statement and this is also the presentation used in the IFRS illustrative financial statements published by the IASB.

Another solution would be to start with an operating profit figure disclosed on the face of the income statement (i.e. the operating profit from continuing operations) and to add to this the operating profit from discontinued operations, to arrive at an operating profit for the reporting entity as a whole. This would reduce the number of adjustments presented on the face of the cash flow statement, and is likely to provide a clearer presentation for the user of the cash flow statement. The disadvantage is that it is not so easily linked to the amounts presented on the face of the income statement. The following illustrates how our model financial statements would appear using this approach.

	Notes	Year ended 31/12/05	Year ended 31/12/04
		CU'000	CU'000
Operating activities			
Operating profit from continuing operations		126,342	49,774
Operating profit from discontinued operations		4,493	5,390
Total operating profit		130,835	55,164
Adjustments for:			
Depreciation of property, plant and equipment		29,517	19,042
Impairment loss on fixtures and equipment		4,130	–
Amortisation of goodwill		–	247
Amortisation of other intangible assets		2,614	846
Impairment of goodwill		463	–
Negative goodwill released to income		–	(2,210)
Share-based payment expense		5,872	4,718
(Increase)/decrease in fair value of investment property		(601)	49
Amortisation of deferred initial direct costs on leases of investment property		10	10
Gain on disposal of property, plant and equipment		(4,184)	(500)
Increase/(decrease) in provisions		6,464	(2,320)
Operating cash flows before movements in working capital		175,120	75,046
Increase in inventories		(18,101)	(28,065)
Decrease/(increase) in receivables		2,319	(31,993)
Increase in payables		26,237	22,968
Cash generated from operations		185,575	37,956
Income taxes paid		(5,553)	(2,129)
Interest paid		(42,209)	(32,995)
Net cash from operating activities		137,813	2,832

We believe that any of the presentations discussed above is acceptable. Another method that has been suggested is that the "operating cash flows from discontinued operations" be presented as a single line item at the end of the operating cash flows section of the cash flow statement. We do not support this option, as we believe that it does not result in the reporting of totals for individiual categories of cash flows required by IAS 7.

6. Notes to the financial statements

6.1 General structure and content of the notes to the financial statements

IAS 1 *Presentation of Financial Statements* (as revised) contains explicit guidance regarding the general structure of the notes to the financial statements. The requirements are summarised below. Year on year, financial statements tend to be amended on a piecemeal basis, so that the logical sequence of the structure is undermined. We encourage preparers to take advantage of the wholesale redraft that will inevitably be required due to the numbers of revisions to Standards effective for 2005, using this as a timely opportunity to think about the general structure of the notes to their financial statements, and to how that structure might be improved.

The requirements of IAS 1 are that the notes to the financial statements should: [IAS 1.103]

- present information about the basis of preparation of the financial statements and the specific accounting policies used;
- disclose the information required by IFRSs that is not presented on the face of the primary statements; and
- provide additional information that is not presented on the face of the primary statements but that is relevant to an understanding of any of those primary statements.

The Standard requires that the notes should, so far as practicable, be presented in a systematic manner and that each item on the face of the primary statements should be cross referenced to any related information in the notes. [IAS 1.104]

The following order is suggested for the notes to the financial statements (although entities are permitted to vary the order according to their particular circumstances): [IAS 1.105]

- a statement of compliance with IFRSs;
- a summary of significant accounting policies applied;
- supporting information for items presented in the primary statements in the order in which each statement and each line item is presented; and
- other disclosures including:
  - contingent liabilities and unrecognised contractual commitments; and
  - non-financial disclosures, for example an entity's financial risk management objectives and policies.

6.2 Impact of implementation of new and revised Standards, and other changes in accounting policies

The revisions to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* have expanded the disclosure requirements regarding changes in accounting policies, whether voluntary or arising on the implementation of a new Standard. Although the thrust of the disclosures is consistent with the previous version of the Standard (i.e. that the entity should disclose the nature and effect of changes in accounting policies), the requirements have been made more specific so that:

- where applicable, the title of the relevant Standard and details of its transitional provisions should be disclosed;
- for the current and each prior period presented, the effect of the change should be disclosed:
  - for each financial statement line item affected; and
  - if IAS 33 *Earnings per Share* applies to the entity, for basic and diluted earnings per share (see also section 6.9.2); and
- if retrospective application is impracticable for prior periods, the entity is required to disclose the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

Readers will note, therefore, that a one-line statement to the effect that "this change in accounting policy has reduced the profit for the year by CUx" is unlikely to be acceptable under the new requirements.

In general, we encourage entities to present a list of the new Standards and Interpretations that are effective in the current period and to explain the impact of each of the Standards and Interpretations on the financial statements. This is generally helpful for users of the financial statements, and allows them to compare the impact of the changes on different entities.

However, in the current year, when so many Standards have been revised and new Standards issued, we recommend that reporting entities avoid presenting a long list of all of the Standards and Interpretations that have changed and restrict their discussions to the specific changes that have had a material impact on the financial statements. Otherwise, the entity risks presenting the reader with too much information.

The following extract from Deloitte's IFRS Model Financial Statements for 2005 illustrates a general description of the adoption of new Standards and Interpretations in 2005 and the specific disclosures in relation to the adoption of one new Standard, IFRS 2 *Share-based Payment*.

Note 2. Adoption of new and revised International Financial Reporting Standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2005. The adoption of these new and revised Standards and Interpretations has resulted in changes to the Group's accounting policies in the following areas that have affected the amounts reported for the current or prior years:

- share-based payments (IFRS 2);
- goodwill (IFRS 3);
- excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost of acquisition (previously known as negative goodwill) (IFRS 3); and
- initial direct costs incurred in relation to operating lease receivables (IAS 17 (Revised)).

The impact of these changes in accounting policies is discussed below. The impact on basic and diluted earnings per share is disclosed in note 14.

IFRS 2, Share-based Payment

IFRS 2 *Share-based Payment* requires the recognition of equity-settled share-based payments at fair value at the date of grant and the recognition of liabilities for cash-settled share-based payments at the current fair value at each balance sheet date. Prior to the adoption of IFRS 2, the Group did not recognise the financial effect of share-based payments until such payments were settled.

In accordance with the transitional provisions of IFRS 2, the Standard has been applied retrospectively to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005, and to liabilities for share-based transactions existing at 1 January 2005. The Standard therefore applies to share options granted in 2004 and 2005.

For 2004, the change in accounting policy has resulted in a net decrease in profit for the year of CU4.227 million (share-based payments expense of CU4.718 million net of deferred tax impact of CU0.491 million). The balance sheet at 31 December 2004 has been restated to reflect the recognition of a liability for share-based payments of CU3.516 million and a share options reserve of CU1.202 million, and an additional deferred tax asset of CU0.491 million.

For 2005, the impact of share-based payments is a net charge to income of CU4.018 million (share-based payment expense of CU5.872 million net of deferred tax impact of CU1.854 million). At 31 December 2005, the share options reserve amounted to CU4.062 million, the liability recognised for share-based payments amounted to CU6.528 million, and the related deferred tax asset amounted to CU2.345 million.

The share-based payments expense has been included in the following lines of the income statement: cost of sales CU4.942 million (2004: CU4.127 million) and administration costs CU0.93 million (2004: CU0.591 million).

Note that where the entity adopts a new Standard in advance of its effective date, there is generally a specific disclosure requirement to disclose that fact. The following extract illustrates this requirement.

In addition, the Group has elected to adopt the amendments to IAS 19 *Employee Benefits* issued in December 2004 in advance of their effective date of 1 January 2006. The impact of these amendments has been to expand the disclosures provided in these financial statements in relation to the Group's defined benefit retirement benefit plan (see note 46). Consequential changes to IAS 1 *Presentation of Financial Statements* have required the title of the Group's statement of changes in equity presented on page 5 of these financial statements to be changed to the Statement of Recognised Income and Expense, but have had no impact on the amounts reported in that statement. The Group has not elected to present actuarial gains and losses arising in its defined benefit plan in the Statement of Recognised Income and Expense and continues to recognise such gains and losses using the 'corridor' approach (see detailed accounting policy in note 3).

6.3 Potential impact of changes in Standards and Interpretations not yet effective

When a new Standard or Interpretation has been issued and is not yet effective, and the entity has not applied the new Standard or Interpretation, the entity is required to disclose: [IAS 8.30}

- that fact; and
- known or reasonably estimable information relevant to assessing the possible impact that application of the new Standard or Interpretation will have on the entity's financial statements in the period of initial application.

Disclosure of the effect of Standards and Interpretations not yet effective was a recommendation of the previous version of IAS 8, but it is a requirement of the revised Standard, which suggests that the entity should consider disclosing: [IAS 8.31]

- the title of the new Standard or Interpretation;
- the nature of the impending change or changes in accounting policy;
- the date by which application of the Standard is required;
- the date at which it plans to apply the Standard or Interpretation initially; and
- either a discussion of the impact that initial application of the Standard or Interpretation is expected to have on the entity's financial statements, or if that impact is not known or reasonably estimable, a statement to that effect.

IAS 8.30 represents quite an onerous requirement for preparers of financial statements. Not only do they have to deal with Standards and Interpretations that are effective in the current year, but they also need to look forward to the impact of more recent developments on the financial statements of future periods. Preparers may have taken the decision not to adopt the new Standard or Interpretation in the first place because the identification of the required information would strain available resources. The disclosure requirements of IAS 8.30 mean that they are required to make their best efforts to determine the likely impact of the new requirements in any case.

And this obligation refers to all Standards or Interpretations issued before the date the financial statements are authorised for issue – not only to those issued before the balance sheet date. Therefore, the preparers of the financial statements are required to monitor new developments, even in the busy period during which the financial statements are being prepared. Obviously, where a Standard or Interpretation is issued very close to the date that the financial statements are to be authorised for issue, then the amount of information that will be reasonably estimable within the time constraints is limited.

6.4 Principal accounting policies

The requirements of IAS 1 as regards the presentation of a summary of significant accounting policies have been revised somewhat – but the general requirement has not changed. Entities are required to disclose the accounting policies used that are relevant to an understanding of the financial statements. The Standard continues to emphasise that, apart from the policies that are specifically required to be disclosed by other Standards, the selection of the policies to be disclosed will depend on what is most relevant in the entity's particular circumstances.

IAS 1 also refers to the appropriate location for the summary of significant accounting policies. Although IAS 1.103 implies that the summary should be presented as part of the notes, IAS 1.107 allows that it may be presented as a separate component of the financial statements. That is to say, it is acceptable to present a statement of accounting policies that does not form one of the numbered notes to the financial statements.

The large number of detailed changes to Standards as result of the Improvements Project and the significant impact of IFRSs to be adopted in 2005 financial statements require that preparers of financial statements need to devote more time and resources than usual to the wording of their accounting policies in the current period. Not only do they need to draft new accounting policies for new recognition and measurement requirements under the Standards, but they should also work to redraft all of their accounting policies so that the detailed wordings are consistent with the language of the revised Standards.

Again, this is a tremendous opportunity to re-examine the accounting policies as previously drafted to identify opportunities for improving the clarity of the wording used, even where the policy has not been affected by the developments in the period. Preparers should also take the opportunity to review the order in which the accounting policies are presented, to ensure that the structure is logical.

6.5 Critical accounting judgements and key sources of estimation uncertainty

IAS 1 (as revised) contains two new disclosure requirements that merit particular attention – critical accounting judgements and key sources of estimation uncertainty. These require preparers to summarise and disclose all of the key judgements and estimates made in drafting the financial statements – something that is likely to require a great deal of thought and consideration. Essentially, preparers will be required to expose the integrity of the judgements and estimates that they have made.

The required disclosures, if properly drafted, should prove invaluable to users of the financial statements in their attempts to come to an informed understanding of the picture that is being presented in the financial statements. Preparers should not underestimate the challenge that they present.

The detailed requirements are described in sections 6.5.1 and 6.5.2 below. One question that also needs to be considered is the location of these disclosures. In Deloitte's IFRS Model Financial Statements for 2005, we have chosen to present them in a separate note. It may be that management considers it more meaningful to present individual comments in the notes dealing with the relevant components of the financial statements (e.g. a key source of uncertainty regarding the recoverability of an asset would be discussed in the note dealing with that asset). This approach is equally acceptable.

6.5.1 Critical judgements in applying the entity's accounting policies

IAS 1.113 requires that an entity should disclose, in the summary of significant accounting policies or other notes, the judgements (apart from those involving estimations) that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. Examples of judgements to be disclosed under this requirement are:

- whether financial assets are held to maturity investments;
- whether substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to other entities;
- whether, in substance, particular sales of goods are financing arrangements and therefore do not give rise to revenue; and
- whether the substance of the relationship between the entity and a special purpose entity indicates that the special purpose entity is controlled by the entity.

Paragraphs 114 and 115 of IAS 1 provide further detailed guidance relating to this disclosure requirement.

6.5.2 Key sources of estimation uncertainty

IAS 1.116 requires that an entity should disclose in the notes information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:

- their nature; and
- their carrying amount as at the balance sheet date.

Paragraphs 117 to 124 of IAS 1 provide further detailed guidance relating to this disclosure requirement.

We are always reluctant to suggest "model" disclosures for items such as those required by IAS 1.113 and by 1.116, because the disclosures provided by each entity should be dictated by its particular circumstances, and by the significance of judgements and estimates made to the entity's results and financial position. The following extract from our model financial statements, therefore, is merely intended to illustrate the types of disclosures that may be required and, importantly, the distinction between a critical judgement and an estimation uncertainty.

Note 4. Critical accounting judgements and key sources of estimation uncertainty

Critical judgements in applying the entity's accounting policies

In the process of applying the entity's accounting policies, which are described in note 3, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below).

Revenue recognition

Note 12 describes the expenditure required in the year for rectification work to be carried out on goods supplied to one of the Group's major customers. These goods were delivered to the customer in the months of January to July 2005, and shortly thereafter the defects were identified by the customer. Following negotiations, a schedule of works was agreed, which will involve expenditure by the Group until 2007. In the light of the problems identified, management was required to consider whether it was appropriate to recognise the revenue from these transactions of CU102 million in the current period, in line with the Group's general policy of recognising revenue when goods are delivered, or whether it was more appropriate to defer recognition until the rectification work was complete.

In making its judgement, management considered the detailed criteria for the recognition of revenue from the sale of goods, set out in IAS 18 *Revenue* and, in particular, whether the Group had transferred to the buyer the significant risks and rewards of ownership of the goods. Following the detailed quantification of the Group's liability in respect of rectification work, and the agreed limitation on the customer's ability to require further work or to require replacement of the goods, the directors are satisfied that the significant risks and rewards have been transferred and that recognition of the revenue in the current year is appropriate, in conjunction with recognition of an appropriate provision for the rectification costs.

Capitalisation of borrowing costs

As described in note 3, it is the Group's policy to capitalise borrowing costs directly attributable to the acquisition, construction or production of qualifying assets. Capitalisation of the borrowing costs relating to construction of the Group's premises in A Land was suspended in 2004, while the development was delayed as management reconsidered its detailed plans. Capitalisation of borrowing costs recommenced in 2005 – following the finalisation of revised plans, and resumption of the activities necessary to prepare the asset for its intended use. Although construction of the premises was not restarted until May 2005, borrowing costs have been capitalised from February 2005, at which time the technical and administrative work associated with the project recommenced.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Recoverability of internally-generated intangible asset

During the year, management reconsidered the recoverability of its internally-generated intangible asset arising from the Group's e-business development, which is included in its balance sheet at 31 December 2005 at CU3.24 million. The project continues to progress in a very satisfactory manner, and customer reaction has reconfirmed management's previous estimates of anticipated revenues from the project. However, increased competitor activity has caused management to reconsider its assumptions regarding future market shares and anticipated margins on these products. Detailed sensitivity analysis has been carried out and management is confident that the carrying amount of the asset will be recovered in full, even if returns are reduced. This situation will be closely monitored, and adjustments made in future periods, if future market activity indicates that such adjustments are appropriate.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was CU2.423 million after an impairment loss of CU0.463 million was recognised during 2005. Details of the impairment loss calculation are provided in note 17.

6.6 Segment reporting

There are no substantive changes to IAS 14 *Segment Reporting* effective in 2005. However, where an entity has a discontinued operation, preparers of financial statements will need to consider how best to reconcile the disclosure requirements of IAS 14 and IFRS 5.

The issue arises because, as discussed in section 2, IFRS 5 splits the income statement between continuing and discontinued operations, so that the amount reported for revenue, expenses etc., will generally only relate to continuing operations. On the other hand, IAS 14 requires that the amounts reported for segments be reconciled to amounts presented on the face of the income statement as follows:

An entity shall present a reconciliation between the information disclosed for reportable segments and the aggregated information in the consolidated or individual financial statements. In presenting the reconciliation, the entity shall reconcile segment revenue to entity revenue from external customers (including disclosure of the amount of entity revenue from external customers not included in any segment); segment result from continuing operations shall be reconciled to a comparable measure of entity operating profit or loss from continuing operations as well as to entity net profit and loss from continuing operations; segment result from discontinued operations shall be reconciled to entity profit or loss from discontinued operations; …. [IAS 14.67]

Because several of the amounts presented for segments include discontinued operations, whereas the amounts on the face of the income statement generally do not, the presentation of these reconciliations can be an issue (particularly for a large conglomerate with a large number of segments, where it is only possible to present a limited number of columns).

Where the discontinued operation is itself a segment, then the issue is easily solved. The note disclosures regarding discontinued operations (as illustrated in section 2.2) will ensure compliance with the requirement of IAS 14. In these circumstances, we recommend a cross reference from the segment reporting note along the following lines:

Segment information about the Group's continuing operations is presented below. Segment information about the Group's discontinued operations is presented in note 10.

Where the discontinued operation is a subset of a reportable segment, the presentation becomes more complicated. The layout for the segment information related to the income statement illustrated below meets the requirements of both Standards.

	Electronic goods	Construction	Discontinued operations	Eliminations	Total for continuing operations
	Year ended 31/12/05	Year ended 31/12/05	Year ended 31/12/05	Year ended 31/12/05	Year ended 31/12/05
	CU'000	CU'000	CU'000	CU'000	CU'000
Revenue					
External sales	778,047	304,073	(17,460)	–	1,064,660
Inter-segment sales	10,020	–	–	(10,020)	–
	788,067	304,073	(17,460)	(10,020)	1,064,660
Inter-segment sales are charged at prevailing market prices.					
Result					
Segment result	118,690	34,879	(6,699)	(3,005)	143,865
Unallocated expenses					(17,523)
Operating profit from continuing operations					126,342
Share of profit of associates	10,392	2,371			12,763
Investment revenues					3,501
Other gains and losses					(563)
Finance costs					(36,187)
Profit before tax					105,856
Income tax expense					(16,166)
Profit for the year from continuing operations					89,690

Discontinued operations

Discontinued operations had the following effect on the segment result of the electronic goods segment, analysed into continuing and discontinued components.

	Discontinued operations	Continuing operations	Total for electronic goods segment
	Year ended 31/12/05	Year ended 31/12/05	Year ended 31/12/05
	CU'000	CU'000	CU'000
Revenue			
External sales	17,460	760,587	778,047
Inter-segment sales	–	10,020	10,020
Total revenue	17,460	770,607	788,067
Segment resullt	6,699	111,991	118,690

The segment result from discontinued operations stated above is equal to the profit before tax from discontinued operations disclosed in note 11 which provides a reconciliation to the net profit from discontinued operations.

The discontinued operation could also comprise more than one segment, or it could include components from a number of segments. Preparers will need to consider what the most appropriate and informative layout is, while ensuring that the requirements of both IAS 14 and IFRS 5 are met.

6.7 Analysis and disclosure of components of income and expense

Although this is not a very technical area, it is one that may take up some thinking time in practice. We are not dealing with one specific Standard here, but with the interaction between the presentation requirements of IFRS 5 and the disclosure requirements of many other Standards.

Items affected include:

- disclosure of revenue under IAS 1 and IAS 18;
- disclosure of expense analysis under IAS 1;
- disclosure of finance costs and finance income under IAS 32 and IAS 1; and
- disclosure of the components of income tax under IAS 12.

The issue in practice is that various Standards (such as those cited above) require disclosure of components of income and expense. The disclosures contemplated by these Standards pre-date IFRS 5 and clearly contemplate disclosure of the totals of these items for the entity as a whole.

Because, where an entity has a discontinued operation, IFRS 5 has effectively split the income statement and the details presented on the face of the income statement generally relate only to continuing operations, totals disclosed for these components which include discontinued operations will be difficult to reconcile to the face of the income statement. There are various means of overcoming this difficulty, which will require some consideration.

We believe that the best means of dealing with this issue is to present analyses of these items between continuing and discontinued operations in the notes to the income statement, and also to provide a total for the entity as a whole. This approach is illustrated below.

8. Finance costs

	Continuing operations		Discontinued operation		Total	
	Year ended 31/12/05	Year ended 31/12/04	Year ended 31/12/05	Year ended 31/12/04	Year ended 31/21/05	Year ended 31/12/04
	CU'000	CU'000	CU'000	CU'000	CU'000	CU'000
Interest on bank overdrafts and loans	40,430	31,932	493	830	40,923	32,762
Interest on convertible loan notes (note 33)	1,260	–	–	–	1,260	–
Interest on obligations under finance leases	348	233	–	–	348	233
Total borrowing costs	42,038	32,165	493	830	42,531	32,995
Less: amounts included in the cost of qualifying assets	(5,571)	–	–	–	(5,571)	–
	36,467	32,165	493	830	36,960	32,995
Loss arising on derivatives not in a designated hedge accounting relationship	100	–	–	–	100	–
Fair value gains on interest rate swaps designated as cash flow hedges transferred from equity	(380)	–	–	–	(380)	–
	36,187	32,165	493	830	36,680	32,995

This layout may be cumbersome, but we believe that it achieves the clearest presentation. We believe that it is preferable to present the totals where practicable, despite that fact that, as discussed in section 2.1.2 above, recent IFRIC discussions have indicated that it is not always necessary to present a single total for a required disclosure item (i.e. in the above scenario, it is acceptable to present separate analyses of the finance charges for the continuing and discontinued operations).

Deloitte's IFRS Model Financial Statements for 2005, available on our IAS Plus website, illustrate a number of other examples in this category.

6.8 Non-current assets held for sale

In addition to the requirements of IFRS 5.38 (see section 3.2), IFRS 5 requires the following details to be disclosed in the notes to the financial statements:

An entity shall disclose the following information in the notes in the period in which a non-current asset (or disposal group) has been either classified as held for sale or sold:

a) a description of the non-current asset (or disposal group);

b) a description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of that disposal;

c) the gain or loss recognised in accordance with paragraphs 20–22 [of IFRS 5] and, if not separately presented on the face of the income statement, the caption in the income statement that includes that gain or loss;

d) if applicable, the segment in which the non-current asset (or disposal group) is presented in accordance with IAS 14, Segment Reporting. [IFRS 5.41]

These disclosures are illustrated below:

Note 11. Non-current assets held for sale

On 20 December 2005, the directors resolved to dispose of one of the Group's production lines for electronic goods. Negotiations with several interested parties have subsequently taken place. The assets and liabilities attributable to the production line, which are expected to be sold within twelve months, have been classified as a disposal group held for sale and are presented separately in the balance sheet. The operations are included in the Group's electronic goods activities for segment reporting purposes (see note 6).

The proceeds of disposal are expected to exceed the net carrying amount of the relevant assets and liabilities and, accordingly, no impairment loss has been recognised on the classification of these operations as held for sale.

The major classes of assets and liabilities comprising the disposal group classified as held for sale are as follows:

	Year ended 31/12/05
	CU'000
Goodwill	22
Property, plant and equipment	1,698
Inventories	202
Total assets classified as held for sale	1,922
Trade and other payables, and total for liabilities associated with assets classified as held for sale	(247)
Net assets of disposal group	1,675

Preparers should also be conscious of the need to ensure that IFRS 5 does not adversely affect the entity's compliance with disclosure requirements in other Standards. Take the case of inventories in the example cited above. IAS 1 requires that a total for inventories be presented on the face of the balance sheet. [IAS 1.68(g)]. Where inventories have been reclassified as held for sale, and have been presented with other assets in the disposal group on the face of the balance sheet, then this requirement cannot be met. However, in order to do as much as possible to meet the requirement, and the requirement in IAS 2.36(b) to disclose the total carrying amount for inventories, this information should be provided in another note. We suggest that the following analysis be provided.

Note 24. Inventories

	31/12/05	31/12/04
	CU'000	CU'000
Raw materials	84,255	80,504
Work-in-progress	2,578	1,893
Finished goods	30,860	26,301
	117,693	108,698
Finished goods classified as part of a disposal group held for sale	202	–
	117,895	108,698

6.9 Earnings per share

Although the basic model of IAS 33 has not been impacted by the Improvements Project, there have been a number of changes in detail. As regards disclosure, changes arise principally as the result of the requirement to provide a more detailed breakdown of earnings per share (EPS) where the reporting entity has both continuing and discontinued operations. However, there are a small number of other detailed requirements of which preparers should be aware.

6.9.1 Presentation on the face of the income statement

The revised Standard requires the presentation on the face of the income statement of basic and diluted earnings per share for:

- profit or loss for the period from continuing operations attributable to the ordinary equity holders of the parent entity; and for
- profit or loss for the period attributable to the ordinary equity holders of the parent entity.

As also required by the previous version of the Standard, these disclosures are required for each class of ordinary shares that has a different right to share in profit for the period, and the entity is required to present basic and diluted earnings per share with equal prominence for all periods presented.

Therefore, assuming that the entity has both continuing and discontinued operations, four measures of EPS will be presented on the face of the income statement, together with their comparative amounts. Separate information in respect of discontinued operations can also be presented on the face of the income statement – although, because of the potential for information overload on the face of the income statement, we expect that this disclosure will generally be presented in the notes to the financial statements.

The following illustrates one way of laying out the disclosures on the face of the income statement.

Earnings per share

	Year ended 31/12/05	Year ended 31/12/04
From continuing and discontinued operations:		
Basic	66.1 cents	13.0 cents
Diluted	51.4 cents	12.9 cents
From continuing operations:		
Basic	59.0 cents	10.2 cents
Diluted	46.0 cents	10.1 cents

Note that EPS is presented for every period for which an income statement is presented. If diluted earnings per share is reported for at least one period, it shall be reported for all periods presented, even if it equals basic earnings per share. If basic and diluted earnings per share are equal for all periods presented, dual presentation can be accomplished in one line on the income statement. [IAS 33.67]

Therefore, where basic and diluted EPS are equal, the amount could be described in a one-line item on the income statement such as "Basic and diluted earnings per share".

6.9.2 Disclosures in the notes to the financial statements

The basis for each of the EPS figures presented on the face of the income statement must be disclosed in the notes to the financial statements. In addition, the basic and diluted amounts per share for any discontinued operation will ordinarily be presented in the notes.

This can lead to quite an extended EPS note in the financial statements, as illustrated in the following extract from Deloitte's IFRS Model Financial Statements for 2005.

Note 14. Earnings per share

From continuing and discontinued operations

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the parent is based on the following data:

Earnings

	Year ended 31/12/05	Year ended 31/12/04
	CU'000	CU'000
Earnings for the purposes of basic earnings per share (profit for the year attributable to equity holders of the parent)	99,757	19,529
Effect of dilutive potential ordinary shares:		
Interest on convertible loan notes (net of tax)	1,040	–
Earnings for the purposes of diluted earnings per share	100,797	19,529

Number of shares

	Year ended 31/12/05	Year ended 31/12/04
	'000	'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	151,031	150,000
Effect of dilutive potential ordinary shares:		
Share options	2,860	1,872
Convertible loan notes	42,188	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	196,079	151,872

The denominators for the purposes of calculating both basic and diluted earnings per share have been adjusted to reflect the capitalisation issue in February 2006 (see note 27).

From continuing operations

The calculation of the basic and diluted earnings per share from continuing operations attributable to the ordinary equity holders of the parent entity is based on the following data.

Earnings figures are calculated as follows:

	Year ended 31/12/05	Year ended 31/12/04
	CU'000	CU'000
Profit for the year attributable to equity holders of the parent	99,757	19,529
Less:		
Profit for the year from discontinued operation	(10,676)	(4,171)
Earnings for the purposes of basic earnings per share from continuing operations	89,081	15,358
Effect of dilutive potential ordinary shares:		
Interest on convertible loan notes (net of tax)	1,040	–
Earnings for the purposes of diluted earnings per share from continuing operations	90,121	15,358

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

From discontinued operation

Basic earnings per share for the discontinued operation is 7.1 cents per share (2004: 2.8 cents per share) and diluted earnings per share for the discontinued operation is 5.4 cents per share (2004: 2.8 cents per share), based on the profit for the year from the discontinued operation of CU10.7 million (2004: CU4.2 million) and the denominators detailed above for both basic and diluted earnings per share.

Impact of changes in accounting policy

Changes in the Group's accounting policies during the year are described in detail in note 2. To the extent that those changes have had an impact on results reported for 2005 and 2004, they have had an impact on the amounts reported for earnings per share. The following table summarises that impact on both basic and diluted earnings per share:

	Impact on basic earnings per share		Impact on diluted earnings per share	
	Year ended 31/12/05	Year ended 31/12/04	Year ended 31/12/05	Year ended 31/12/04
	cents	cents	cents	cents
Recognition of share-based payments as expenses	(2.7)	(2.8)	(2.0)	(2.8)
Negative goodwill no longer released to income	(1.1)	–	(0.9)	–
Amortisation of initial direct costs on operating leases (CU10,000 decrease in profit each year does not impact amounts reported due to rounding)	–	–	–	–
Total impact of changes in accounting policy	(3.8)	(2.8)	(2.9)	(2.8)

The disclosure above regarding the effect on EPS of changes in accounting policy is derived from IAS 8.28(f)(ii). It could be presented either in the "changes in accounting policies" note or in the EPS note, as illustrated above.

6.9.3 *Other additional disclosure requirements*

The revised Standard has a number of other additional disclosure requirements, the most important of which are:

- a requirement that the individual effect of each class of instruments that affects EPS be separately disclosed in the reconciliations of earnings and weighted average number of shares figures illustrated above;
- details of instruments (including contingently issuable shares) that could potentially dilute basic EPS in the future, but were not included in the calculation of diluted EPS because they are antidilutive for the period(s) presented.

6.10 Investments in subsidiaries

IAS 27 has been revised as a result of the Improvements Project – with some amendments to the detailed disclosure requirements regarding investments in subsidiaries.

Most notable of the revisions as regards disclosure, none of which should prove too onerous, are the requirements to disclose:

- where applicable, the reasons why the ownership (directly or indirectly) of more than half of the (potential) voting rights of an investee does not constitute control;
- the reporting date of the financial statements of a subsidiary when such financial statements are used to prepare consolidated financial statements and are as of a reporting date or for a period that is different from that of the parent, and the reason for using a different reporting date or period; and
- the nature and extent of any significant restrictions (e.g. resulting from borrowing arrangements or regulatory requirements) on the ability of subsidiaries to transfer funds to the parent in the form of cash dividends, or to repay loans or advances.

Note that the revised IAS 27 also imposes additional disclosure requirements where a reporting entity prepares separate financial statements.

Interestingly, the requirement under the previous version of the Standard to provide a listing and details of significant subsidiaries in consolidated financial statements has been removed. However, it seems that a listing of subsidiaries is still required in consolidated financial statements by virtue of the requirements of IAS 24.12 (see section 6.16.4).

In separate financial statements prepared by a parent, IAS 27 continues to require a list of significant subsidiaries, including the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held. [IAS 27.41 & 42]

6.11 Investments in associates

The disclosure requirements of IAS 28 have been expanded considerably as a result of the Improvements Project. The new requirements are not expected to be particularly onerous – although preparers will need to ensure that they obtain the required information on a timely basis.

New disclosures required under the revised Standard include:

- the fair value of investments in associates for which there are published price quotations;
- summarised financial information of associates, including the aggregated amounts of assets, liabilities, revenues and profit or loss;
- the reasons why the presumption that an investor does not have significant influence is overcome if the investor holds, directly or indirectly through subsidiaries, less than 20 per cent of the voting or potential voting power of the investee but concludes that it has significant influence;
- the reporting date of the financial statements of an associate, when such financial statements are used in applying the equity method and are as of a reporting date or for a period that is different from that of the investor, and the reason for using a different reporting date or different period;
- the nature and extent of any significant restrictions (e.g. resulting from borrowing arrangements or regulatory requirements) on the ability of associates to transfer funds to the investor in the form of cash dividends, or repayment of loans or advances;
- the unrecognised share of losses of an associate, both for the period and cumulatively, if an investor has discontinued recognition of its share of losses of an associate;
- the fact that an associate is not accounted for using the equity method for one of the reasons allowed for under paragraph 13 of IAS 28;
- summarised financial information of associates, either individually or in groups, that are not accounted for using the equity method, including the amounts of total assets, total liabilities, revenues and profit or loss;
- the investor's share of any discontinued operations of associates accounted for under the equity method; and
- in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, the investor's share of the contingent liabilities of an associate incurred jointly with other investors, and those contingent liabilities that arise because the investor is severally liable for all or part of the liabilities of the associate.

Consistent with the changes in IAS 27, the requirement to provide a listing of associates in consolidated financial statements has been removed from IAS 28. However, for separate financial statements, details of associates are still required to be disclosed. [IAS 27.41 & 42]

6.12 Financial instruments

The disclosure requirements for financial instruments mandatory for 2005 are generally derived from the revised version of IAS 32 *Financial Instruments: Disclosure and Presentation* released by the IASB in December 2003. The revised Standard includes a number of noteworthy changes regarding disclosure and presentation.

Since December 2003, the IASB has issued a number of amendments to IAS 39 *Financial Instruments: Recognition and Measurement*. One of these amendments, issued in June 2005 and dealing with the fair value option, resulted in consequential amendments to IAS 32. The amendments are effective from 1 January 2006, but preparers wishing to adopt the revised rules as regards the fair value option in advance of that date will also need to provide the additional disclosures.

Finally, in August 2005, IFRS 7 *Financial Instruments: Disclosures* was released, which replaces the disclosure requirements of IAS 32. Although IFRS 7 is not effective until 1 January 2007, entities may choose to adopt it in advance of its effective date, which would have further implications for financial instrument disclosures.

Therefore, preparers are faced with a number of choices as regards the Standards dealing with financial instruments that they wish to apply for 2005 financial statements. The following sections segregate the impacts of each of the developments outlined above, so that preparers can understand the implications of the choices available to them.

6.12.1 Requirements mandatory for 2005 accounting periods

The revisions to IAS 32 and IAS 39 in December 2003 included quite significant changes as regards the recognition, measurement and presentation of financial instruments which are beyond the scope of this publication. Readers should refer to other publications available on our IAS Plus website for details of those changes.

As regards disclosure, the most significant impact of the 2003 revisions has been the addition of disclosure requirements for the following:

- information about the use of valuation techniques, including the sensitivities of fair value estimates to significant valuation assumptions;
- information about assets retained in transactions that do not qualify for derecognition in their entirety;
- the carrying amounts of financial assets and financial liabilities that are classified as held for trading and those designated by the entity upon initial recognition as financial assets and financial liabilities at fair value through profit or loss;
- the amount of the change in fair value of a financial liability designated as at fair value through profit or loss that is not attributable to changes in a benchmark interest rate;
- the existence of, and specified information about, issued compound financial instruments with multiple embedded derivative features that have interdependent values; and
- information about any defaults by the entity on loans payable and other breaches of loan agreements.

As these requirements are mandatory for 2005, preparers should ensure that they refer to a comprehensive disclosure checklist to ensure that they have been complied with in full. Deloitte's presentation and disclosure checklist is available on www.iasplus.com

6.12.2 Subsequent amendment to IAS 32 and IAS 39

In June 2005, the IASB issued the amendment to IAS 39 *Financial Instruments: Recognition and Measurement – The Fair Value Option,* which limits the ability for an entity to designate any financial asset or financial liability as at "fair value through profit or loss" (FVTPL).

The amendment includes a consequential amendment to IAS 32 that expands the disclosure requirements for financial assets and financial liabilities classified as at FVTPL.

Additional required disclosures include, for financial assets or financial liabilities designated as at FVTPL, the criteria for such designation and how the entity has satisfied those criteria, the carrying amounts, and gains and losses recognised in profit or loss. There are also a number of additional disclosure requirements primarily related to loans and receivables designated as at FVTPL.

6.12.3 IFRS 7

6.12.3.1 Overview

IFRS 7 *Financial Instruments: Disclosures* was issued in August 2005 and is effective for accounting periods beginning on or after 1 January 2007. However, preparers may wish to consider early implementation. The Standard:

- adds new disclosures about financial instruments to those currently required by IAS 32;
- replaces the disclosure requirements currently imposed on financial institutions by IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*; and
- puts all of those financial instrument disclosures together in a new combined Standard.

IFRS 7 deals with the disclosure requirements in relation to all risks arising from financial instruments (with limited exemptions), and applies to any entity that holds financial instruments. The level of disclosure required depends on the extent of the entity's use of financial instruments and its exposure to financial risk.

The Standard retains many of the disclosure requirements currently within IAS 32 and IAS 30. However, there have been some editorial changes to the existing requirements as well as some additional disclosure requirements added. The overriding objective of the Standard is that preparers should provide disclosures that enhance a user's understanding of the entity's exposures to financial risks and how the entity manages those risks. To this end, the Standard requires an entity to disclose:

- information on the significance of financial instruments to the entity's financial position and performance;
- the nature and extent of risk exposures arising from financial instruments (quantitative disclosures); and
- the approach taken in managing those risks (qualitative disclosures).

An appendix of mandatory application guidance is part of the Standard. There is also an appendix of non-mandatory implementation guidance that describes how an entity might provide the disclosures required by IFRS 7.

A disclosure checklist setting out all of the requirements of IFRS 7 is available in the checklists section of Deloitte's IAS Plus website.

6.12.3.2 Principal changes

The more significant changes from the disclosure requirements of IAS 32 and IAS 30 include:

- a new requirement to disclose the carrying amounts of financial assets and financial liabilities under each of the classifications in IAS 39 (i.e. financial assets and financial liabilities designated as at FVTPL, held-to-maturity investments, loans and receivables, available-for-sale financial assets, and financial liabilities measured at amortised cost);
- new disclosure requirements regarding loans and receivables designated as at FVTPL;
- the requirement to disclose the fair value movement on financial liabilities designated as at FVTPL due to changes in credit risk has also been extended to include loans and receivables designated as at FVTPL. In addition, entities are required to disclose the method used to determine the amount of the change;
- new disclosure requirements where there is a difference between the fair value of a financial instrument at initial recognition and the amount that would be determined at that date using a valuation technique (known as "day one P&L"). IFRS 7 requires disclosure of the entity's accounting policy for recognising that difference in profit or loss, and the aggregate difference yet to be recognised in profit or loss at the beginning and end of the period and a reconciliation of changes in the balance of this difference;
- new disclosure requirements for financial assets that are either past due or impaired. IFRS 7 requires an analysis of the age of financial assets that are past due and, unless impracticable, an estimate of the fair value of collaterals held by the entity;
- where an entity records an impairment on a financial asset or a group of financial assets through an allowance account (e.g. for bad debts), as opposed to a direct reduction to the carrying amount of the financial asset, it shall disclose, for each class of financial asset, a reconciliation of changes in carrying amounts in that allowance account during the period;
- separate disclosure of the amount of ineffectiveness recognised in profit or loss on cash flow hedges and hedges of net investments in foreign operations;
- separate disclosure of the gains or losses in fair value hedges arising from remeasuring the hedging instrument and on the hedged item attributable to the hedged risk;
- disclosure of the net gain or loss on 'held-to-maturity investments', 'loans and receivables' and 'financial liabilities measured at amortised cost'; and
- additional requirements on providing sensitivity analysis of market risks and how changes in these risks would have impacted profit or loss and equity in the period.

6.12.3.3 Exemption from presentation of certain comparative information for early adopters

To encourage early adoption of IFRS 7, entities that already apply IFRSs and that elect to adopt IFRS 7 for a period beginning before 1 January 2006 are exempted from presenting comparative information for the disclosures required by paragraphs 31 to 42 of the Standard about the nature and extent of risks arising from financial instruments. Note that:

- this exemption is not available to entities adopting IFRS 7 in advance of its effective date (1 January 2007) but on or after 1 January 2006. The IASB concluded that such entities do not need such relief, since they have a full calendar year after publication of the Standard to accumulate the necessary information; and
- the exemption does not extend to the accounting disclosures (in paragraphs 7 to 30 of the Standard) that are based on requirements previously in IAS 32. Existing users of IFRSs should not encounter difficulties in providing comparative information for these disclosures.

6.12.3.4 First-time adopters

Entities that adopt IFRSs for the first time before 1 January 2006, and that elect to adopt IFRS 7 in their first IFRS financial statements, are not required to present comparative information for any of the disclosures required by IFRS 7 in those first financial statements. This exemption is intended to facilitate first-time adopters (e.g. with 31 December 2005 year ends) who wish to adopt IFRS 7 immediately, without having to adopt IAS 30 and IAS 32 for only one period.

Note that this relief is not available for entities adopting IFRSs for the first time in periods beginning on or after 1 January 2006 (but before 1 January 2007). Such entities can choose whether to apply IAS 30 and IAS 32, or IFRS 7, in their first financial statements but, if they elect to adopt IFRS 7, they are required to present comparative information.

6.12.3.5 Concurrent revisions to IAS 1

Concurrent revisions to IAS 1 *Presentation of Financial Statements* add requirements for disclosures of:

- the entity's objectives, policies and processes for managing capital;
- quantitative data about what the entity regards as capital;
- whether the entity has complied with any capital requirements; and
- if it has not complied, the consequences of such non-compliance.

6.13 Business combinations and goodwill

IFRS 3 *Business Combinations* replaces IAS 22 of the same title with effect for all business combinations for which the agreement date is on or after 31 March 2004. In respect of previously recognised goodwill and negative goodwill, the requirements of IFRS 3 apply from the beginning of the first annual period beginning on or after 31 March 2004. Therefore, for many entities, their December 2005 year end financial statements will be the first affected by the new Standard. The revised disclosure requirements can be considered under the following headings:

- business combinations effected during the period, and those effected after the balance date but before the financial statements are authorised for issue;
- gains, losses, error corrections and other adjustments recognised in the current period that relate to business combinations that were effected in the current or prior period;
- goodwill; and
- previously recognised negative goodwill.

The general thrust of the disclosures under IFRS 3 is consistent with those required under IAS 22 – but some of the detailed requirements may prove quite onerous. The following is not a comprehensive list of disclosure requirements under the new Standard – but rather is intended to highlight those requirements that are likely to require special attention in 2005. As always, preparers should refer to a comprehensive presentation and disclosure checklist.

6.13.1 Business combinations effected during the period and after the balance sheet date

The requirements discussed in this section apply equally to combinations effected during the period and to those effected after the balance sheet date and before the financial statements are authorised for issue. The disclosure requirements need not be complied with for combinations after the balance sheet date where compliance would be impracticable, provided that that fact is disclosed, together with an explanation of why this is the case. [IFRS 3.71]

The following disclosures are new:

- where equity instruments are issued or issuable as part of the cost of combination, disclosure of the number of equity instruments issued and issuable, the fair value of those instruments and the basis for determining that fair value. If a published price does not exist for the instruments at the date of exchange, the significant assumptions used to determine fair value should be disclosed. If a published price exists at the date of exchange but was not used as the basis for determining the cost of the combination, that fact should be disclosed together with: the reasons the published price was not used; the method and significant assumptions used to attribute a value to the equity instruments; and the aggregate amount of the difference between the value attributed to, and the published price of, the equity instruments;
- the amount recognised at the acquisition date for each class of the acquiree's assets, liabilities and contingent liabilities, and the carrying amount of each of these classes (determined in accordance with IFRSs) prior to the combination. Although IAS 7 *Cash Flow Statements* has always required disclosure of an analysis of the assets and liabilities acquired in a business combination, this is the first such requirement in a business combinations standard. The more explicit wording of the requirement in IFRS 3 including the requirement to disclose the pre-acquisition carrying amount of those assets and liabilities, is likely to focus attention on adjustments made at the date of combination;

- a description of the factors that contributed to a cost that results in the recognition of goodwill, including a description of each intangible asset that was not recognised separately from goodwill and an explanation of why the intangible asset's fair value could not be measured reliably;
- a description of the nature of any excess of the interest acquired in the identifiable asset, liabilities and contingent liabilities of the acquiree over the cost of acquisition (previously referred to as negative goodwill) recognised in profit or loss;
- the amount of the acquiree's profit or loss since the acquisition date included in the acquirer's profit or loss for the period; and
- the revenue and profit or loss of the combined entity for the period as though the acquisition date had been the beginning of the period.

Separate disclosures are required for each business combination that is individually material. Details of business combinations that are not individually material may be aggregated.

The following illustration of a note on business combinations is extracted from Deloitte’s IFRS Model Financial Statements for 2005.

Note 40. Acquisition of subsidiary

On 1 August 2005, the Group acquired 100 per cent of the issued share capital of Subfive Limited for cash consideration of CU7.9 million. This transaction has been accounted for by the purchase method of accounting.

The net assets acquired in the transaction, and the goodwill arising, are as follows:

	Acquiree’s carrying amount before combination	Fair value adjustments	Fair value
	CU’000	CU’000	CU’000
Net assets acquired:			
Property, plant and equipment	8,140	767	8,907
Trademarks	–	870	870
Deferred tax asset	–	351	351
Inventories	2,393	461	2,854
Trade receivables	12,520	–	12,520
Bank and cash balances	4,272	–	4,272
Retirement benefit obligation	(2,436)	–	(2,436)
Trade payables	(21,220)	(48)	(21,268)
Deferred tax liability	(150)	–	(150)
Contingent liability	–	(21)	(21)
	3,519	2,380	5,899
Goodwill			2,043
Total consideration, satisfied by cash			7,942
Net cash outflow arising on acquisition:			
Cash consideration paid			(7,942)
Cash and cash equivalents acquired			4,272
			(3,670)

The goodwill arising on the acquisition of Subfive Limited is attributable to the anticipated profitability of the distribution of the Group’s products in the new markets and the anticipated future operating synergies from the combination.

Subfive Limited contributed CU15.3 million revenue and CU1.2 million to the Group’s profit before tax for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2005, total group revenue for the period would have been CU1,249 million, and profit for the year would have been CU102.5 million.

6.13.2 Gains, losses and error corrections arising from business combinations

The objective of the new disclosure requirements under this heading is to enable users to evaluate the financial effects of gains, losses, error corrections and other adjustments recognised in the current period that relate to business combinations that were effected in the current or in previous periods. The following disclosures are required:

- the amount and an explanation of any gain or loss recognised in the current period that:
  - relates to the identifiable assets acquired or liabilities or contingent liabilities assumed in a business combination that was effected in the current or a previous period; and
  - is of such size, nature or incidence that disclosure is relevant to an understanding of the combined entity's financial performance;
- if the initial accounting for a business combination that was effected in the immediately preceding period was determined only provisionally at the end of that period, the amounts and explanations of the adjustments to the provisional values recognised during the current period; and
- the information about error corrections required to be disclosed under IAS 8 for any of the acquiree's identifiable assets, liabilities or contingent liabilities, or changes in the values assigned to those items, that the acquirer recognises after the initial accounting for a business combination is complete.

6.13.3 Goodwill

While the disclosure requirements as regards goodwill under the new Standard are more detailed than under IAS 22, they are generally consistent.

Preparers should be aware, however, of two issues that they may need to consider:

- regarding goodwill previously accounted for under IAS 22 and, therefore, amortised, from 1 January 2005 the amortisation of such goodwill should be discontinued. At 1 January 2005, the entity is required to eliminate the carrying amount of the related accumulated amortisation with a corresponding decrease in goodwill. This elimination is illustrated in the following extract from Deloitte’s IFRS Model Financial Statements for 2005; and
- IAS 36 imposes additional disclosure requirements regarding potential impairments of goodwill. These requirements are very detailed and they are likely to prove challenging for preparers of financial statements. A full listing of the requirements is beyond the scope of this publication – readers are referred to the IAS 36 section of Deloitte’s presentation and disclosure checklist. The following extract from our model financial statements provides a very simple illustration of the type of narrative that may be required.

Note 17. Goodwill

	CU’000
Cost	
At 1 January 2004	8,840
Exchange differences	(216)
At 1 January 2005	8,624
Elimination of amortisation accumulated prior to the adoption of IFRS 3 (see note 2)	(6,086)
Arising on acquisition of a subsidiary	2,043
Eliminated on disposal of a subsidiary	(1,673)
Reclassified as held for sale	(22)
At 31 December 2005	2,886
Amortisation	
At 1 January 2004	6,026
Exchange differences	(187)
Amortisation for the year	247
At 1 January 2005	6,086
Elimination of amortisation accumulated prior to the adoption of IFRS 3 (see note 2)	(6,086)
At 31 December 2005	–
Impairment	
Impairment loss recognised in the year ended 31 December 2005 and balance at 31 December 2005	463
Carrying amount	
At 31 December 2005	2,423
At 31 December 2004	2,538

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had been allocated as follows:

	31/12/05	31/12/04
	CU'000	CU'000
Electronic goods:		
Subfive Limited (single CGU)	2,043	–
Subthree Limited (single CGU)	–	22
Construction (comprised of several CGUs):		
residential property construction activities	843	843
Toy operations		
Subsix Limited (single CGU)	–	1,673
	2,886	2,538

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next five years and extrapolates cash flows for the following five years based on an estimated growth rate of 3%. This rate does not exceed the average long-term growth rate for the relevant markets.

The rate used to discount the forecast cash flows from Subfive Limited is 8.9 per cent, and from the Group's residential property construction activities is 11.2 per cent.

At 31 December 2005, before impairment testing, goodwill of CU 0.843 million was allocated to the residential property construction CGU within the construction business segment. Due to increased competition in the market, the Group has revised its cash flow forecasts for this CGU. The residential property CGU has therefore been reduced to its recoverable amount through recognition of an impairment loss against goodwill of CU 0.463 million.

6.13.4 Amounts previously recognised as negative goodwill

Under IAS 22 (the previous Standard on business combinations), according to its nature, negative goopdwill was either released to income over time or was recognised immediately in profit or loss. Any unamortised balance at the reporting date was reported as a deduction from assets in the balance sheet. Under IFRS 3, the acquirer is required to reassess the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination if, at the acquisition date, the acquirer's interest in the net fair value of those items exceeds the cost of the combination. Any excess remaining after that reassessment must be recognised by the acquirer immediately in profit or loss.

As regards negative goodwill carried at the beginning of the year, the carrying amount of negative goodwill at 1 January 2005 arising from business combinations for which the agreement date was before 31 March 2004 is derecognised at 1 January 2005, with a corresponding adjustment to the opening balance of retained earnings. Note that the comparative balance sheet is not adjusted – therefore, negative goodwill may continue to appear in comparative balance sheets in the 2005 reporting period.

6.14 Share-based payments

IFRS 2 *Share-based Payment* is a very significant Standard, both in terms of the recognition and measurement principles introduced, and the disclosure requirements imposed. For previous accounting periods, disclosure requirements regarding equity compensation plans had been included in IAS 19 *Employee Benefits*. The disclosure requirements of IFRS 2 (which are listed in Deloitte's presentation and disclosure checklist) are so much more comprehensive than those earlier requirements that to present a comparison would be largely meaningless. Preparers will more or less need to start with a blank page when drafting the disclosures for 2005.

The information required to be disclosed will be generated as preparers work to comply with the recognition and measurement requirements of IFRS2. The following extract from Deloitte's IFRS Model Financial Statements for 2005 illustrates an appropriate layout for the disclosures. Remember that the illustration does not cover all possible scenarios – reference to a checklist is essential in order to ensure that all relevant disclosure requirements are being complied with.

Note 45. Share-based payments

Equity-settled share option scheme

The Company has a share option scheme for all employees of the Group. Options are exercisable at a price equal to the average quoted market price of the Company's shares on the date of grant. The vesting period is 3 years. If the options remain unexercised after a period of 5 years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

Details of the share options outstanding during the year are as follows:

	2005		2004	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
		CU		CU
Outstanding at the beginning of the year	4,500,000	3.03	2,210,000	1.62
Granted during the year	1,700,000	6.49	2,300,000	4.37
Forfeited during the year	(1,000)	1.50	(10,000)	1.50
Exercised during the year	(650,000)	1.38	–	
Expired during the year	(60,000)	1.00	–	
Outstanding at the end of the year	5,489,000	4.14	4,500,000	3.03
Exercisable at the end of the year	1,489,000		1,000,000	

The weighted average share price at the date of exercise for share options exercised during the year was CU7.1. The options outstanding at the end of the year have a weighted average remaining contractual life of 3.4 years (2004: 3.6 years).

In 2005, options were granted on 31 March (2004: 30 June). The estimated fair value of the options granted on that date is CU1.84 (2004: CU1.22).

These fair values were calculated using the Black-Scholes pricing model. The inputs into the model were as follows:

	2005	2004
Weighted average share price	CU5.45	CU4.37
Weighted average exercise price	CU5.39	CU4.25
Expected volatility	40%	35%
Expected life	4	4
Risk free rate	3.5%	3.0%
Expected dividend yield	2%	Nil

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 4 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferrability, exercise restrictions and behavioural considerations.

During 2005, the Company repriced certain of its outstanding options. The exercise price was reduced from CU6.2 to the then current market price of CU5.0. The incremental fair value of CU0.256 million will be expensed over the remaining vesting period of 2 years. The Company used the inputs noted above to measure the fair value of the old and new options.

The Group recognised total expenses of CU2.86 million (2004: CU1.202 million) related to equity-settled share-based payment transactions during the year.

Cash-settled share-based payments

The Group issued to certain employees share appreciation rights (SARs) that require the Group to pay the intrinsic value of the SAR to the employee at the date of exercise. At 31 December 2005, the Group has recorded liabilities of CU6.528 million (2004: CU3.516 million). The fair value of the SARs is determined using the Black-Scholes pricing model using the assumptions noted above. The Group recorded total expenses of CU3.012 million (2004: CU3.516 million) during the year in respect of SARs. At 31 December 2005, the total intrinsic value of the vested SARs was Nil (2004:Nil).

Other share-based payment plan

Under the Company's employee share purchase plan, all employees may purchase the Company's shares at 85% of the closing market price on the date of grant during a two-week period each year. Employees may purchase shares having a value not exceeding 15% of their gross compensation during the offering period. The shares so purchased are generally placed in the employees share savings plan and will only be released to employees who remain in the Company's employment for a period of three years from the date of grant. Pursuant to the plan, the Company issued 1,000,000 shares during the year, at an average share price of CU6. The discount of CU0.9 million will be expensed over the vesting period of 3 years.

One presentation issue that does merit special consideration is the most appropriate way to present amounts that have been transferred to equity in respect of share based payment – see the section 4.5 above for further discussion.

6.15 Post-employment benefit plans

The presentation and disclosure requirements regarding post-employment benefits are set out in IAS 19 *Employee Benefits* which was not affected by the Improvements Project. Therefore, the requirements effective for December 2005 year ends are unchanged.

However, in December 2004 the IASB issued amendments to IAS 19 dealing with a range of issues (see section 4.2). Those amendments included the introduction of additional disclosure requirements that:

- provide information about trends in the assets and liabilities in a defined benefit plan and the assumptions underlying the components of the defined benefit cost; and
- bring the disclosures in IAS 19 closer to those required by the US standard SFAS 132 *Employers' Disclosures about Pensions and Other Postretirement Benefits* which was revised in December 2003.

The amendments to IAS 19's disclosure requirements are effective from 1 January 2006, but earlier application is encouraged. Where the amendments are adopted before 1 January 2006, that fact must be disclosed in the financial statements. Entities may wish to adopt these revisions in advance of their effective date – particularly if they wish to avail of the new option to recognise actuarial gains and losses in the statement of recognised income and expense (SORIE), rather than the income statement, as is permitted under the revised Standard (see section 4.2).

The revised disclosure requirements in respect of defined benefit plans are listed in Deloitte's presentation and disclosure checklist, and are illustrated below in an extract from Deloitte's IFRS Model Financial Statements for 2005. Effectively, the new requirements result in a breakdown of information that has always been disclosed. Where previously, details of movements were provided for the net liability or asset recognised in the balance sheet, the revised Standard requires the analyses of movements on the defined benefit obligation and the plan assets to be presented separately. The requirements are therefore unlikely to prove onerous, as the preparer will always have had the information available, but our experience is that the physical layout of the disclosures can take some consideration.

Note 46. Retirement benefit plans

Defined contribution plans

The Group operates defined contribution retirement benefit plans for all qualifying employees of its construction and leasing divisions in A Land. The assets of the plans are held separately from those of the Group in funds under the control of trustees. Where employees leave the plans prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

The employees of the Group's subsidiary in B Land are members of a state-managed retirement benefit plan operated by the government of B Land. The subsidiary is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

The total expense recognised in the income statement of CU9.8 million (2004: CU7.3 million) represents contributions payable to these plans by the Group at rates specified in the rules of the plans. As at 31 December 2005, contributions of CU0.7 million (2004: CU0.8 million) due in respect of the 2005 reporting period had not been paid over to the plans. The amounts were paid over subsequent to the balance sheet date.

Defined benefit plan

The Group operates a funded defined benefit plan for qualifying employees of its subsidiaries in C Land, and previously for the employees of Subsix Limited. Under the plan, the employees are entitled to retirement benefits varying between 40 and 65 per cent of final salary on attainment of a retirement age of 60. No other post-retirement benefits are provided.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 31 December 2005 by Mr. F.G. Ho, Fellow of the Institute of Actuaries. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

The principal assumptions used for the purpose of the actuarial valuations were as follows:

	Valuation at	
	31/12/05	31/12/04
Discount rate	7%	7%
Expected return on plan assets	9%	8%
Expected rate of salary increases	5%	5%
Future pension increases	4%	4%

The amount recognised in the balance sheet in respect of the Group's defined benefit retirement benefit plan is as follows:

	31/12/05	31/12/04
	CU'000	CU'000
Present value of funded obligations	180,512	177,395
Fair value of plan assets	(125,093)	(118,828)
	55,419	58,567
Unrecognised actuarial losses	(17,310)	(15,372)
Unrecognised past service cost	(4,181)	(4,721)
Net liability recognised in the balance sheet	33,928	38,474

Amounts recognised in profit or loss in respect of the defined benefit plan are as follows:

	Year ended 31/12/05	Year ended 31/12/04
	CU'000	CU'000
Current service cost	17,561	12,297
Interest on obligation	9,021	7,057
Expected return on plan assets	(10,443)	(9,503)
Actuarial losses recognised in the year	–	1,309
Past service cost	540	1,888
	16,679	13,048

The charge for the year is included in the employee benefits expense in the income statement. *[Where analysis of expenditure in the income statement is by nature]*

OR

Of the charge for the year, CU12.832 million (2004: CU10.035 million) is included in cost of sales in the income statement and CU3.847 million (2004: CU3.013 million) is included in administrative expenses. *[Where analysis of expenditure in the income statement is by function]*

The actual return on plan assets was CU10.32 million (2004: CU9.7 million).

Changes in the present value of the defined benefit obligation are as follows:

	Year ended 31/12/05	Year ended 31/12/04
	CU'000	CU'000
Opening defined benefit obligation	177,395	169,541
Service cost	17,561	12,297
Interest cost	9,021	7,057
Actuarial losses	2,238	2,512
Obligation transferred on disposal of subsidiary	(4,932)	–
Obligation acquired on acquisition of a subsidiary	2,436	–
Exchange differences	138	(721)
Benefits paid	(23,345)	(13,291)
Closing defined benefit obligation	180,512	177,395

Changes in the fair value of plan assets are as follows:

	Year ended 31/12/05	Year ended 31/12/04
Opening fair value of plan assets	118,828	108,095
Expected return	10,443	9,503
Actuarial gains	300	995
Contributions by employer	18,429	14,440
Exchange differences	438	(914)
Benefits paid	(23,345)	(13,291)
Closing fair value of plan assets	125,093	118,828

The fair value of plan assets at the balance sheet date is analysed as follows:

	31/12/05	31/12/04
	CU'000	CU'000
Equity instruments	3,182	4,629
Debt instruments	34,096	38,735
Property	29,717	18,226
Other assets	58,098	57,238
	125,093	118,828

The plan assets do not include any of the Group's own financial instruments, nor any property occupied by, or other assets used by, the Group.

The expected rates of return on individual categories of plan assets are determined by reference to relevant indices published by the A Stock Exchange. The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the plan's investment portfolio. The history of the plan for the current and prior period is as follows:

	31/12/05	31/12/04
	CU'000	CU'000
Present value of defined benefit obligation	180,512	177,395
Fair value of plan assets	(125,093)	(118,828)
Deficit	55,419	58,567
Experience adjustments on plan liabilities	1,862	784
Experience adjustments on plan assets	300	684

In accordance with the transitional provisions for the amendments to IAS 19 *Employee Benefits* in December 2004, the disclosures above are determined prospectively from the 2004 reporting period.

The Group expects to contribute approximately CU16 million to its defined benefit plan in 2006.

6.16 Related party transactions

As a result of the Improvements Project, a number of changes have been made to IAS 24 *Related Party Disclosures*. Although the underlying objective of the Standard has not been altered, a number of matters of detail have been changed. Given the sensitivity often associated with the disclosure of related party transactions and balances, this is an area that requires consideration early in the timetable for drafting the financial statements.

Changes made that may require consideration are:

- the removal of the exemptions covering parent-only financial statements and those of wholly-owned subsidiaries;
- the inclusion of transactions between state-controlled entities within the scope of the Standard;
- the expanded definition of related party – which may result in additional balances and transactions being disclosed;
- more specific disclosure requirements regarding the disclosure of the entity's parent and the entity's ultimate parent;
- new specific disclosure requirements covering the compensation of key management personnel; and
- some amendments to the detailed disclosure requirements regarding transactions and balances identified as related party transactions and balances.

Note that the revisions apply to both current year and comparative disclosure requirements. Therefore, comparative period disclosures should also be re-examined to ensure that they comply with the revised Standard.

6.16.1 Financial statements of the parent and of wholly-owned subsidiaries

The previous version of IAS 24 effectively excluded from its scope a parent's separate financial statements published with its consolidated statements, and the financial statements of wholly-owned subsidiaries provided that certain conditions were met. The Exposure Draft for the revised Standard proposed to continue these exemptions. The objective was to ensure that entities required by law to produce financial statements for public use in accordance with IFRSs, in addition to the group's consolidated financial statements, would not be unduly burdened. Respondents to the Exposure Draft objected to these exemptions, however, and they were not included in the final revised Standard. Therefore, with effect from 1 January 2005, the individual financial statements of group entities are dealt with on a stand-alone basis, and they are required to comply with all of the requirements of IAS 24.

This may significantly increase the burden on groups with large numbers of subsidiaries where each of the subsidiaries is required to prepare financial statements in accordance with IFRSs. For the first time, all wholly-owned subsidiaries will be required to disclose details of transactions and balances with other group entities under IAS 24.

6.16.2 State-controlled entities

Following the revisions to IAS 24, those state-controlled entities that are within the scope of IFRSs (i.e. those that are profit-oriented) are no longer exempted from disclosing transactions with other state-controlled entities.

This may have significant implications in jurisdictions where state-controlled entities account for a substantial proportion of economic activity. The accumulation and appropriate disclosure of details of transactions and balances with other state-controlled entities is likely to prove cumbersome.

6.16.3 Expanded definition of related party

The definition of related party has been expanded by adding:

- parties with joint control over the entity;
- joint ventures in which the entity is a venturer; and
- post-employment benefit plans for the benefit of employees of an entity, or of any entity that is a related party of that entity.

A further clarification on the status of post-employment benefit funds has been added to IAS 24 as a result of the December 2004 amendments to IAS 19 (see above). Following the adoption of that revised Standard, participation by a parent or subsidiary in a defined benefit plan that shares risks between group entities is a transaction between related parties, details of which are disclosable under IAS 24. This requirement applies from the date of implementation of the revised version of IAS 19 – and at the latest for accounting periods beginning on or after 1 January 2006.

Entities will need to ensure that their systems have identified all transactions and balances with these new classes of related parties, and that appropriate disclosures are incorporated in financial statements.

6.16.4 Disclosure of relationships involving control

Under IAS 24 (as revised), regardless of whether or not there have been transactions with those related parties, an entity is required to disclose: [IAS 24.12]

- relationships between the parent and its subsidiaries;
- the name of its parent and, if different, the ultimate controlling party; and
- if neither the entity's parent nor the ultimate controlling party produces financial statements available for public use, the name of the next most senior parent that does so. The next most senior parent is the first parent in the group above the immediate parent that produces consolidated financial statements available for public use.

IAS 24 requires that relationships where control exists should be disclosed, even where there have been no transactions between the parties, in order to enable users of financial statements to form a view about the effects of related party relationships on the entity. This has always been a requirement of IAS 24 – but the detailed requirements of IAS 24.12 set out above are more specific.

The ultimate controlling party may or may not be a corporate entity. The requirement to disclose the entity's ultimate controlling *party* means that, where such control is exercised by an individual, or by a group of individuals acting in concert, their identity must be disclosed. This may be a sensitive disclosure.

6.16.5 Compensation of key management personnel

Previous versions of IAS 24 did not deal explicitly with disclosure of the compensation of key management personnel. As key management personnel have always fallen within the definition of a related party, and there was no specific exemption, compensation paid to them has always been, prima facie, disclosable. However, this requirement was complied with in a variety of ways – most commonly the disclosures being restricted to those specified by local sources of regulation, such as companies legislation or stock exchange disclosure requirements.

With effect from 2005, IAS 24 contains explicit rules as to the disclosures required regarding compensation paid to key management personnel. These are listed below. It is important to note that these requirements exist independently of any local laws or regulations, and preparers will need to review their existing disclosures in order to ensure that they comply with IAS 24.

Key management are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. The total compensation paid to key management personnel must be disclosed, as well as an analysis of that amount between:

- short-term employee benefits;
- post-employment benefits;
- other long-term benefits;
- termination benefits; and
- share-based payments. [IAS 24.16]

Compensation includes all employee benefits, as defined in IAS 19 *Employee Benefits*. It therefore includes all forms of consideration provided in exchange for services rendered to the entity, including those benefits to which IFRS 2 *Share-based Payment* applies. Compensation includes:

- short-term employee benefits, such as wages, salaries, and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars, and free or subsidised goods or services) for current employees;
- post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care;
- other long-term employee benefits, including long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are not payable wholly within twelve months after the end of the period, profit-sharing, bonuses and deferred compensation;
- termination benefits; and
- share-based payments. [IAS 24.9]

The amount disclosed for compensation of key management personnel should include consideration paid on behalf of a parent of the entity in respect of the entity. [IAS 24.9]

6.16.6 Other changes in detailed disclosure requirements

There have been a number of amendments to the detailed disclosure requirements – preparers should refer to a comprehensive disclosure checklist in order to ensure that the revised requirements are complied with in full. In particular, the revised Standard clarifies the disclosure requirements regarding:

- outstanding balances with related parties together with their terms and conditions including whether they are secured, and the nature of the consideration to be provided in settlement;
- details of any guarantees given or received;
- provisions for doubtful debts; and
- the settlement of liabilities on behalf of the entity or by the entity on behalf of another party.

Other new disclosures required include:

- the amounts of transactions and outstanding balances with respect to related parties. Disclosure of proportions of transactions and outstanding balances is no longer sufficient;
- the expense recognised during the period in respect of bad or doubtful debts due from related parties; and
- classification of amounts payable to, and receivable from, related parties into different categories of related parties.

The revised Standard clarifies that an entity should disclose that the terms of related party transactions are equivalent to those that prevail in arm's length transactions only if such terms can be substantiated. [IAS 24.21]

IASB Standards in issue at 31 October 2005

Standard	Title	Effective Date
IFRS 1	First-time Adoption of International Financial Reporting Standards (*A number of amendments with later effective dates have been made, consequent to amendments made to other Standards. See IFRS 1 for details.*)	An entity's first IFRS financial statements for a period beginning on or after 1 January 2004
IFRS 2	Share-based Payment	1 January 2005*
IFRS 3	Business Combinations	Business combinations for which the agreement date is on or after 31 March 2004*
IFRS 4	Insurance Contracts	1 January 2005*
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations	1 January 2005
IFRS 6	Exploration for and Evaluation of Mineral Resources	1 January 2006*
IFRS 7	Financial Instruments: Disclosures	1 January 2007**
IAS 1	Presentation of Financial Statements	1 January 2005**
IAS 2	Inventories	1 January 2005
IAS 7	Cash Flow Statements	1 January 1994
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	1 January 2005
IAS 10	Events After the Balance Sheet Date	1 January 2005
IAS 11	Construction Contracts	1 January 1995
IAS 12	Income Taxes	1 January 1998
IAS 14	Segment Reporting	1 July 1998
IAS 16	Property, Plant and Equipment	1 January 2005
IAS 17	Leases	1 January 2005
IAS 18	Revenue	1 January 1995
IAS 19	Employee Benefits (*Subsequent amendments to IAS 19 (dealing with actuarial gains and losses, group plans and disclosures) are effective from 1 January 2006, with early adoption encouraged.*)	1 January 1999
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance	1 January 1984
IAS 21	The Effects of Changes in Foreign Exchange Rates	1 January 2005
IAS 23	Borrowing Costs	1 January 1995
IAS 24	Related Party Disclosures	1 January 2005
IAS 26	Accounting and Reporting by Retirement Benefit Plans	1 January 1988
IAS 27	Consolidated and Separate Financial Statements	1 January 2005
IAS 28	Investments in Associates	1 January 2005
IAS 29	Financial Reporting in Hyperinflationary Economies	1 January 1990

IASB Standards in issue at 31 October 2005 (cont'd)

Standard	Title	Effective Date
IAS 30	Disclosures in the Financial Statements of Banks and Similar Financial Institutions	1 January 1991**
IAS 31	Interests in Joint Ventures	1 January 2005
IAS 32	Financial Instruments: Disclosure and Presentation	1 January 2005**
IAS 33	Earnings Per Share	1 January 2005
IAS 34	Interim Financial Reporting	1 January 1999
IAS 36	Impairment of Assets	First annual period beginning on or after 31 March 2004*
IAS 37	Provisions, Contingent Liabilities and Contingent Assets	1 July 1999
IAS 38	Intangible Assets	First annual period beginning on or after 31 March 2004*
IAS 39	Financial Instruments: Recognition and Measurement (*A number of subsequent amendments have been made (concerning transition and initial recognition of financial assets and financial liabilities, cash flow hedge accounting, financial guarantee contracts and the fair value option). The effective dates and transitional arrangements for these amendments are varied and complex – please refer to IAS 39.)*	1 January 2005
IAS 40	Investment Property	1 January 2005*
IAS 41	Agriculture	1 January 2003

* The requirements of these Standards as regards effective dates and transitional provisions are complex. Refer to the text of the Standard for details.

** IFRS 7 is effective from 1 January 2007. Earlier adoption is encouraged. At the date of adoption of IFRS 7:

- IAS 30 and the disclosure requirements of IAS 32 are withdrawn; and
- supplementary disclosures regarding capital are added to IAS 1.

IASB Interpretations in issue at 31 October 2005

Interpretation	Title	Effective Date
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	Annual periods beginning on or after 1 September 2004
IFRIC 2	Members' Shares in Co-operative Entities and Similar Instruments	Annual periods beginning on or after 1 January 2005
IFRIC 3	[Withdrawn]	N/a
IFRIC 4	Determining whether an Arrangement contains a Lease	Annual periods beginning on or after 1 January 2006
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	Annual periods beginning on or after 1 January 2006
IFRIC 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment	Annual periods beginning on or after 1 December 2005
SIC 7	Introduction of the Euro	1 June 1998
SIC 10	Government Assistance – No Specific Relation to Operating Activities	1 August 1998
SIC 12	Consolidation – Special Purpose Entities	Annual periods beginning on or after 1 July 1999
SIC 13	Jointly Controlled Entities – Non-Monetary Contributions by Venturers	Annual periods beginning on or after 1 January 1999
SIC 15	Operating Leases – Incentives	Lease terms beginning on or after 1 January 1999
SIC 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets	15 July 2000
SIC 25	Income Taxes – Changes in the Tax Status of an Entity or its Shareholders	15 July 2000
SIC 27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	31 December 2001
SIC 29	Disclosure - Service Concession Arrangements	31 December 2001
SIC 31	Revenue – Barter Transactions Involving Advertising Services	31 December 2001
SIC 32	Intangible Assets – Web Site Costs	25 March 2002

Notes

Notes

Deloitte IFRS resources

In addition to this publication, Deloitte Touche Tohmatsu has a range of tools and publications to assist companies in implementing and reporting under IFRSs. These include:

www.iasplus.com	Updated daily, iasplus.com is your one-stop shop for information related to IFRSs.
Deloitte's IFRS e-Learning Modules	e-Learning IFRS training materials, one module for each IAS and IFRS and the Framework, with self-tests, available without charge at **www.iasplus.com.**
IAS Plus Newsletter	A quarterly newsletter on recent developments in International Financial Reporting Standards and accounting updates for individual countries. To subscribe, visit **www.iasplus.com.**
IFRSs in your Pocket	Published in English, French, Spanish, Polish, Finnish, Chinese, and other languages, this pocket-sized guide includes summaries of all IASB Standards and Interpretations, updates on agenda projects, and other IASB-related information.
IFRSs and US GAAP: A pocket comparison	A summary of the principal differences in pocket-sized format, including a status report as to what is being done about each difference.
Presentation and disclosure checklist 2005	Checklist incorporating all of the presentation and disclosure requirements of Standards effective in 2005.
Model financial statements	Model financial statements illustrating the presentation and disclosure requirements of IFRSs.
iGAAP 2005 Financial Instruments: IAS 32 and IAS 39 Explained	Guidance on how to apply both of these complex Standards, including illustrative examples and interpretations.
First-time Adoption: A Guide to IFRS 1	Application guidance for the "stable platform" Standards effective in 2005.
Share-based Payment: A Guide to IFRS 2	Guidance on applying IFRS 2 to many common share-based payment transactions.
Business Combinations: A Guide to IFRS 3	Supplements the IASB's own guidance for applying this Standard.

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